

AR02

THE ROYAL BANK OF CANADA

ROYAL
BANK



ANNUAL REPORT 1985

Cover:

**The Royal Bank of Canada
Building, part of the busy Place
Ville Marie business and shop-
ping complex in downtown
Montreal, houses both the
Royal's Corporate Headquar-
ters and Montreal Main Branch.**

The Royal Bank of Canada, chartered in 1869, is Canada's largest chartered bank, with assets at the end of fiscal 1985 of \$96 billion. Two fundamental goals have always been paramount: excellence in banking service across Canada and vigorous participation in international financial markets.

The Royal Bank's extensive network of branches, subsidiaries and affiliates comprises more than 1680 operating units in 44 countries. One of the world's largest retail banks, the Royal is also North America's fifth largest bank overall.

Corporate Headquarters is in Montreal, with certain head office functions in Toronto, Winnipeg and Calgary. To bring prompt decision-making close to clients, the Bank's operations are managed through 11 regional headquarters, seven across Canada and four in major world financial centres.

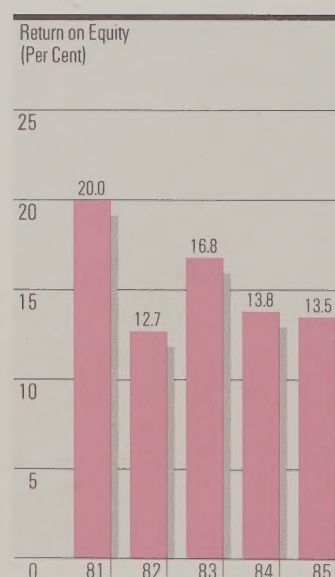
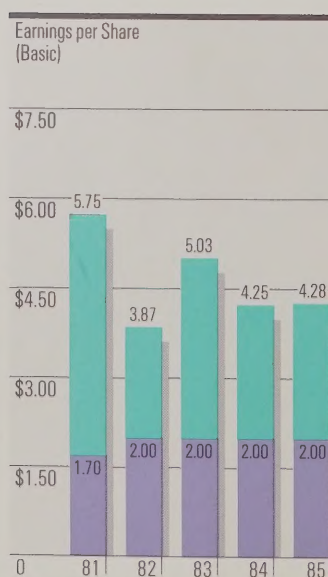
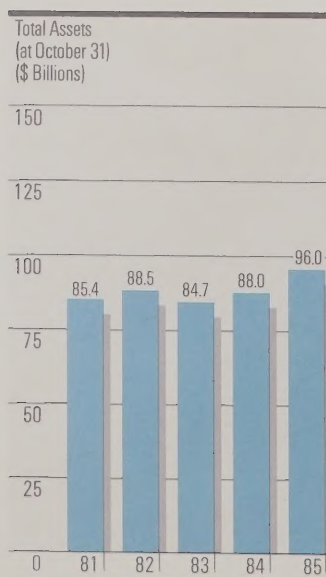
The Bank's domestic operations include 900 electronic Personal Touch Banking machines and a network of 1440 branches serving individuals, businesses and communities across the country, many specializing in particular market sectors.

The Bank's international operations account for more than a third of its assets. Global coverage is provided by more than 240 commercial, wholesale, merchant banking and retail operating units and through more than 5,000 correspondent banking relationships in nearly every country in the world.

The Royal Bank is a leader in the application of new technologies for efficient operational management and in making possible a variety of sophisticated new services.

Royal Bank management believes that success is best achieved through providing the highest quality retail and wholesale banking services where clients need them. To that end, the Bank focuses on the selection, training and development of its staff and puts a heavy premium upon responsiveness, innovation, skill and knowledge, as well as judgement, integrity and the highest standards of ethics and social responsibility.

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FINANCIAL HIGHLIGHTS

For the year ended October 31	1985	1984	Per Cent Change
Earnings Data			
Net income (\$ millions)	\$488	\$450	8.4%
Return on (average) assets	.53%	.52%	1.9
Return on (average) equity	13.5%	13.8%	(2.2)
Balance Sheet Data			
(\$ millions)			
Total assets	\$96,017	\$88,003	9.1
Loans	63,831	59,014	8.2
Deposits	83,543	77,588	7.7
Debentures	1,749	1,336	30.9
Capital and reserves	4,168	3,741	11.4
Capital Adequacy Ratios			
Base capital ratio	3.7%	3.6%	2.8
Base capital equivalent ratio (base plus 1/3 supplementary)	4.2%	4.0%	5.0
Common Stock Data			
Income per share			
Basic	\$4.28	\$4.25	0.7
Fully diluted	3.91	3.87	1.0
Dividends per share	2.00	2.00	—
Share price:			
High	32.38	35.38	(8.5)
Low	27.50	24.88	10.5
Book value - October 31	33.10	30.85	7.3
Number of:			
Shareholders (common)	89,947	79,085	13.7
Common shares outstanding (thousands)	99,427	92,873	7.1
Employees	37,430	38,189	(2.0)
Branches	1,494	1,510	(1.1)

To say that 1985 was a turbulent year in the financial services industry in Canada and abroad may sound like old news. Yet, once again, "turbulence" is the word which most accurately describes the business, economic and political environment in which The Royal Bank of Canada operated during the past year — and in which it continues to operate. Indeed, turbulence has become "normal". What changes year by year are the details.

In reviewing 1985, what comes to mind first, of course, is that Canada saw its first two bank failures in half a century — dramatic events which drew public attention forcibly to the financial industry, and created problems of public confidence for a number of otherwise sound institutions. These matters were widely publicized, discussed and debated, not always in well-informed and balanced ways.

As the debate has unfolded, more facts have become known and some balance has been restored. It has come to be recognized that such problems are not unique to Canada. And there is a growing realization not only that the failed institutions represented less than one per cent of Canadian bank assets, but that unique circumstances at these institutions played an important part. To be sure, these events underline the need for a careful review of the effectiveness of government regulation and supervision. But this comes as no surprise to anyone considering the future implications of pervasive change in the financial services industry all around the world. In the end, confidence in the major national banks in Canada has remained strong, at home and internationally.

These events highlight a fundamental point: the overriding importance of *public confidence* in deposit-taking institutions. Confidence, in the end, cannot be assumed, or manufactured. It must be *earned* by a track record of prudent management — the most basic element of customer service for a financial intermediary.

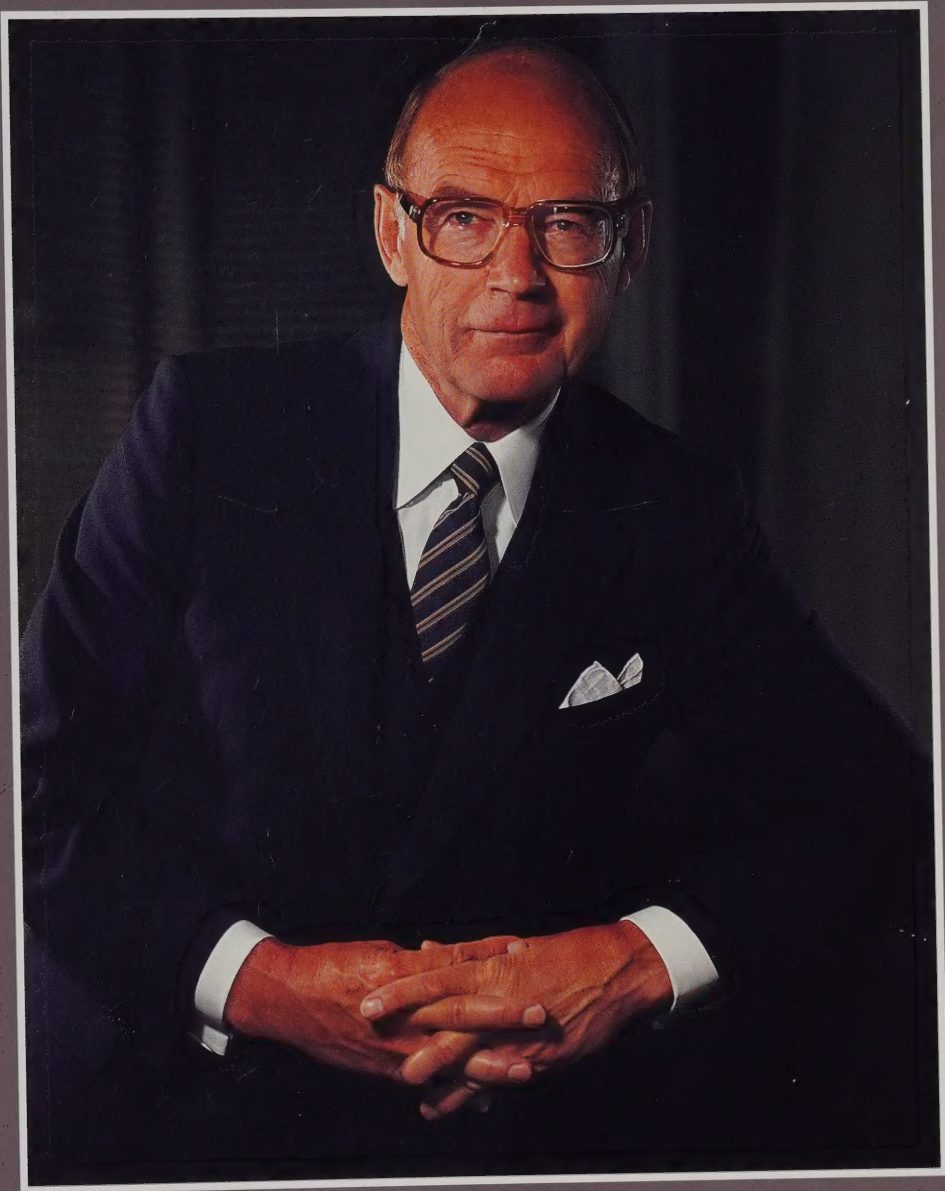
Turbulence can be trying, but it can also be evidence of healthy competition and dynamism in the marketplace. Last year again, financial institutions continued to innovate and diversify into new markets. Product lines evolved, service delivery was enhanced, and technology was used in ever-more imaginative ways — all in response to the changing needs of clients: be they individuals, business entrepreneurs, corporate treasurers or government finance authorities. Customers are the ultimate beneficiaries.

Serving customers well remains the heart of the Royal Bank's mission. It is the basic reason for everything else we do. Traditionally, attention to customer needs, the "personal touch", has been a strong point at the Royal. It remains a constant. All our efforts to preserve the Bank's financial soundness, manage costs, improve productivity, devise and introduce new products, new service-delivery methods and new technology — as well as to make continuing investments in staff training — all are ultimately aimed at one primary goal: serving customers' needs well.

We believe the ensuing pages of this Annual Report illustrate many of the ways in which our basic philosophy pays off. Certainly, the Royal Bank again in fiscal 1985 demonstrated its strength and ability to weather the hazards of a turbulent environment. On the whole, the Bank ended the year in a better financial position than at any time since the onset of the recession in 1982. Profitability, while still below the targets we have set for ourselves, remained at a satisfactory level. Loan loss experience declined for the second year in a row, and the Bank's capital base again expanded.

But financial indicators, while important, do not tell the whole story. The Royal's strength springs ultimately from a consistent track record of service to customers. The Royal is not only Canada's largest financial institution, it is one of the country's largest and most respected service businesses. Public confidence, financial soundness and an earned reputation for high-quality customer service are mutually-reinforcing.

ROWLAND C. FRAZEE
CHAIRMAN AND CHIEF EXECUTIVE OFFICER



Take, for example, an important source of the Bank's financial strength – the \$35 billion in core consumer deposits in Canada which are a key "stabilizer" of the Bank's funding base. The Royal had the *financial* capacity to pay more than \$2 billion in interest on those deposits in 1985. These payments represented competitive rates of interest on personal savings. But consumer deposits are not just attracted by interest rates. They come to us, and stay with us, because of the quality and convenience of the *service* provided through our network of branches and Personal Touch Banking machines.

Another example of the interdependence of financial and service capabilities is found in the assistance being provided to troubled borrowers – those with realistic prospects of long-term viability. The Bank had the strength to absorb substantial loan losses in recent years, while at the same time mobilizing hundreds of account managers and credit officers to spend thousands of hours working to help clients survive by reviewing their operations, restructuring loans and rescheduling payment terms.

Clearly, dedication to serving customers well, in today's context, has a broad meaning. Traditionally, it was often assumed to mean primarily the quality and courtesy of face-to-face contact in a branch. That may have been the major factor, indeed, when customer needs, banking services, delivery methods and the economy as a whole were all essentially stable. Today, it is perhaps a sign of the times that the Royal's "personal touch" must apply not only across the counter but also via our network of banking machines – and especially by way of the convenience, usefulness and reasonable cost of the huge variety of services offered.

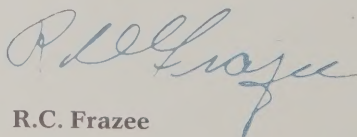
The unchanging constant is this: serving well means giving customers good *value* for their money.

Delivering such value today requires supporting retail branch staff, corporate account managers, merchant bankers, money-market traders – all those in direct contact with the marketplace – with enormous resources of money, equipment, organization and knowledge. It also requires unremitting attention to many of the strategic priorities discussed in past Annual Reports.

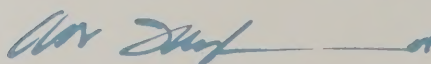
Among these is productivity improvement, which allows us to deliver more value for the price of a service, whether that price is a fee, a service charge or an interest-rate quotation. Another is product innovation which, far from being an end in itself, is aimed at anticipating changing customer needs. Our massive investment in technology also adds value by making service delivery more convenient, by making some new services possible, and by containing cost increases.

Of course, the Bank's continuing investment in its most important dimension – *people* – training them on the job and in the classroom, providing them with competitive compensation and progressive personnel policies and practices – is aimed in the end at assuring that good service is delivered knowledgeably and with sensitivity to the customer.

Finally, the pursuit of profit, for the Bank and for shareholders, is intimately linked to our mission of serving customers well. In the extreme case, the absence of profit would eliminate the organization's capacity to meet anyone's needs – customer, shareholder or employee. Profit is an essential condition of continuance. As well, profitability is a signal that value is being provided, in the eyes of the people who purchase our services. And, in a turbulent world, profit is the ultimate source of financial soundness – the staying power which provides the foundation for consistently being capable of doing our job in society well.



R.C. Frazee
Chairman and Chief Executive Officer



A.R. Taylor
President and Chief Operating Officer

ALLAN R. TAYLOR
PRESIDENT AND CHIEF OPERATING OFFICER



The financial service needs of the Royal Bank's customers – worldwide – are rapidly changing and growing. Both consumer and corporate treasurer are keenly aware of the value of money and have become more knowledgeable about how to manage it. At the same time, their range of choice is broadening as technology, financing techniques and marketing approaches become more sophisticated. Customers are benefitting from intense competition among financial institutions of every description – not just commercial banks, but merchant banks and trust, insurance, credit card, securities brokerage, retail merchandising and other companies.

The Royal Bank's approach to this competitive marketplace is to focus, first and

foremost, on customers and their needs. Today, this means more than attention to people, traditionally a strong point at the Royal. It also means constant innovation – in products, marketing, service delivery, technology and staff training – to anticipate changing customer needs. Highly diversified markets require a corresponding degree of specialization within the Bank, to ensure that the right services are delivered to the right people at the right time.

This specialization is reflected in the Bank's organization. Domestic Banking serves most Canadian clients, while the International and Corporate Banking group operates the Bank's international network, provides merchant banking service and focuses on the largest institutional, governmental and

multinational corporate clients. Treasury and Money Markets Division supports all these operations – and serves clients directly – through its funds gathering, liquidity management and trading activities in Canada and around the world. Corporate staff departments such as Personnel and Control and Financial Planning give bank-wide support – as does the Operations and Systems department, by developing advanced financial-services technology, providing data processing service in 25 countries and operating a growing world-wide communications network.

Domestic Banking

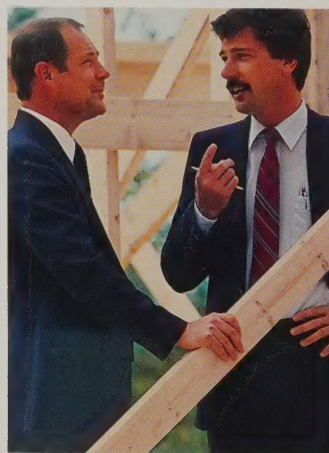
In Canada, the Bank's operations are segmented into market-oriented groups. Retail Banking serves consumers, independent business and agriculture. Commer-

cial Banking and National Accounts serves both medium-sized and larger national corporations. Global Energy and Minerals focuses on the energy and natural resources sector. In addition, large Canadian multinationals are served by the World Corporate Banking Division.

Retail Banking serves about 6.5 million Canadian consumers, ranging from teenagers to young urban professionals, small-town pensioners and wealthy private banking clients. These people have access to dozens of financial-service "products" – more than 20 deposit accounts and investment instruments, a growing array of personal credit and mortgage options, safekeeping, payments processing and, not least, timely provision of reliable account information.



Dartmouth homeowners Sandy and Heather Millar are served in their local branch by Royal mortgage officer Wanetta Sherman (R, above). She is backed by a mortgage team including



Terry Lennox (L, above), who manages her Dartmouth mortgage centre, and Brad Jollimore, Atlantic provinces mortgage and consumer credit manager, seen checking new home site.

SANDY AND HEATHER MILLAR
DARTMOUTH, NOVA SCOTIA



When Sandy and Heather Millar (also on opposite page) moved to Dartmouth from Guelph, Ont., several years ago, they maintained their personal banking relationship with the Royal. They also bought a home, with a trust company mortgage. When the Royal's new mortgage switching option was announced, it caught the Millars' interest, as their mortgage was coming up for renewal. Centralizing their financial affairs with the Royal Bank made sense to the Millars—as it has to thousands of others this year.



S smoked salmon at Sooke Harbour House Inn and Restaurant, on scenic Vancouver Island, has become a treat for West Coast tourists. Behind this success story are entrepreneurs Sinclair and Fredrica Philip, who bought and renovated an older restaurant six years ago. The Royal has supported them from the start, combining local branch service with financing and management counsel provided by independent business specialists based in nearby Victoria.

That range of choice is enhanced by convenient access to service – through 1,440 branches and 900 Personal Touch Banking (PTB) machines in 740 communities from Labrador to Vancouver Island, downtown Toronto to the Yukon. Most basic banking transactions can be carried out at any time of the day or night, seven days a week, through the PTB network.

The Bank's branch network, reinforced by specialized electronic systems, is used by retail account managers to deliver service to 150,000 independent business clients and 80,000 farmers. The network is also used by our commercial and world corporate bankers to serve thousands of medium-sized, national and multinational businesses in Canada.

Specialized credit products for each non-personal sector are complemented by such services as: electronic cash management; foreign exchange and related services from seven regional treasury units; trade finance; computerized cash flow and financial planning programs for farmers.

In 1985, the Bank improved or maintained its dominant market share in Retail Banking markets. Personal loans, mortgages and credit card operations all grew strongly, again contributing solidly to overall earnings. Independent business clients, as a group, have forged ahead since the shock of recession, improving loan quality and producing healthy loan growth in stronger sectors. Most farm clients continue to weather agriculture's severe cost-price squeeze and the Bank is emphasizing efficient

financial management as the key to long-term viability.

Commercial and corporate credit demand was soft, as in the previous two years. However, growth was evident in a number of fee-based services, especially electronic cash management and treasury services.

Personal Banking

To anticipate the changing needs of Canadian consumers, the Bank constantly gathers information on what specific groups of customers want and need. The knowledge and experience of staff are supplemented by market research – among the most extensive conducted by any North American financial institution. This has assisted the Bank in developing products, targeting specific markets, planning the expansion of its electronic banking network and improving service standards.

The Bank has, for example, moved decisively to meet customer demand for flexible payment options on personal and mortgage loans. Recent improvements to our mortgage package include flat-fee mortgage appraisal/application, flat-fee mortgage switching and portable mortgages. Market response has been favourable. The residential mortgage portfolio – already the largest in the country – grew at a record annual rate of more than 18% in 1985. During the first 12 months of the switching program alone, more than 10,000 homeowners brought their existing mortgages to the Royal.

The Buy-Back Car Loan program, launched in 1984 and expanded last year to include recent-model used cars, met with similar market response. Overall, the entire



Ron Rowan, one of the Royal's independent business account managers in Victoria, B.C., often visits Sinclair Philip (also on opposite page) at his thriving restaurant in nearby Sooke.



Philip (L, above) and Rowan review the restaurant's financial records at the local branch, where the Philips do their day-to-day banking business.

car loan portfolio grew by 30% on a year-over-year basis and one quarter of Buy-Back loans were made to new clients. Our package is unique in Canada.

The Bank also offers specific customer groups comprehensive service. For example, Royal V.I.P. Service is aimed at clients with more sophisticated financial needs. For a monthly flat fee, Royal V.I.P. provides a variety of services including Premier Visa card, Gold Client Card, personal credit lines, unlimited chequing, overdraft protection and bill payment. Also designed to serve customers with more sophisticated banking needs are the Royal's private and executive banking centres, in Vancouver, Calgary, Winnipeg, Toronto and Montreal.

Aggressive product development and marketing are being reinforced by efforts to provide faster, more efficient and higher quality service in branches. This, of course, rests primarily on staff knowledge and participation. In 1985, the Bank continued to give high priority to training so as to enhance marketing, customer service and management skills. The Bank's video information network, used for product introduction and promotion, as well as training, was doubled in size. In several regions, service quality programs were implemented. Ontario branch staff were encouraged to define their own "service excellence" goals, post them publicly and actively seek client reactions. Meanwhile, similar service improvement programs were introduced in British Columbia and Alberta.

These steps are being reinforced by modifications to the

branch network, designed to place more decision-making authority closer to the marketplace and cut down on back room paperwork by centralizing certain administrative tasks. Increased use of electronic technology also enabled front-line staff to concentrate more on selling and serving.

Electronic banking is itself improving the convenience—and quality—of service and is extremely popular with Canadians. Four years ago, the Royal had 223 Personal Touch Banking machines and each was used an average of 3,200 times per month. Today, we have 900 PTBs, each one handling an average of 10,000 transactions per month.

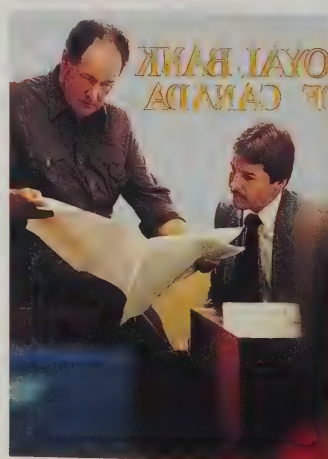
In 1985, the Royal linked its PTB network with Plus System, Inc. in the United States, giving our three

million cardholders access to some 6,000 automated banking machines in 47 states. Another 2,500 machines are becoming available to our clients when a Canadian shared banking machine network, Interac, starts operation in early 1986.

For Visa merchants, we have streamlined the way credit card transactions are authorized and documented for payment. By year-end, some 3,400 retailers were using 4,000 Royal Bank automated authorization terminals to approve credit card transactions at their stores. We also successfully tested an electronic draft capture system with stores in the Toronto area. This system will record payment information on credit card transactions and make automatic deposits to the merchant's account. All these advances are laying the



Grain and livestock farmer Harold Wass (L, above) discusses his plans with Rob Fisher, one of 14 Royal agrologists in Saskatchewan. Fisher



teams up with Kelly Price (seated), manager of the nearby Qu'Appelle branch, who reviews print-outs from the Bank's computerized Farmchek system with Wass, helping to assess his financial needs.

HAROLD WASS

McLEAN, SASKATCHEWAN



From a start as a teenager renting a modest acreage, Harold Wass has progressed to running a 2400-acre grain and livestock farm with his wife and sons. It is a complex, financially demanding business that calls for efficient management. The Royal helps with a range of services, including Farmchek, our computerized cash flow monitoring program. With Farmchek print-outs, convenient service from the local branch and regular visits from a Royal agrologist, Wass has financial management tools to match the quality of his crops—wheat, oats and barley.



Long-time Royal client Joy Treadwell understands the importance of both pleasant personal service and good financial management from her experience as a tour guide, and now as accounting assistant at the McMichael Canadian Collection. Home of the renowned Group of Seven paintings, the gallery is in Kleinburg, Ont., near Toronto. After a 20-year relationship with the Kleinburg branch, she responded favourably when the nine-person staff publicly posted service goals and asked for customers' comments as part of a "service excellence" program.

groundwork for an electronic funds transfer system at the point of sale.

While technology improves convenience, marketing helps customers learn about our services. In 1985, the Royal stepped up its telemarketing and direct mail activities. These methods, based on well-organized information about our client relationships, allow staff to direct specific services to clients most likely to be interested. Similarly, a pensioner sales force was set up to market retirement investment products.

Another area of "value-added" service to consumers is personal and family money management education, a field in which the Bank was a pioneer. In 1985, we launched a new series of consumer

information booklets known as "Your Money Matters". Designed to provide Canadians with a basic knowledge of budgeting, buying a home, investments and retirement planning, the four booklets have received an enthusiastic response from the media and the public.

This effort is among numerous public relations, consumer affairs and corporate participation programs sponsored by the Bank. These run the gamut from a children's book on banking to financial support for cultural groups and corporate involvement in major endeavours like Expo 86. We are the exposition's official bank, the exclusive Canadian sales agent for three-day Expo passes and will have the only on-site banking facilities. With Expo, the Bank is co-sponsoring the World Festival of the Performing Arts, to be held during the exposition.

Independent Business

Independent businesses employ almost half of Canadians working in the private sector and generate more than 20 per cent of the country's sales and pre-tax profits. In 1985, 90,000 new businesses were started.

The Royal serves one in every four independent businesses in Canada. These clients represent 90% of our domestic business connections and use a range of more than 80 banking services. Many start from scratch—they have skill and drive but often lack business management experience and sufficient start-up funds. Products and staff must be mobilized to serve them at that early stage when they choose their bank.

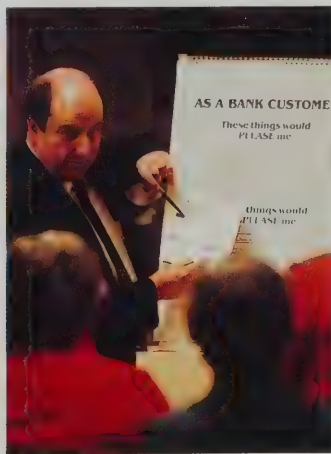
The Royal is organized to serve independent business as a distinct group—to attract them at the start and to ensure they stay well served

as they grow. Our bankers are keenly aware of the "bridges" that are needed for clients between the different specialty areas of Domestic Banking—personal, independent business and commercial.

Many business clients begin their connection with us as personal banking customers. When starting a full-time enterprise, they cross smoothly to the independent business specialists in our branches. Later, successful, growth-oriented firms become larger commercial clients. During 1985, hundreds of these clients moved into the commercial category. The Royal has, over the years, grown with its customers, and it is well-recognized that the Bank "grows its own success stories".



Personal banking customer Joy Treadwell (R, above) gives her views on service quality by filling out a special comment form at her local branch in Kleinburg, Ont.



Branch manager Al Armstrong meets with staff to review customer comments and discuss ways to improve as part of the Royal's Ontario-wide "service excellence" program.

The Royal's stress on independent business has included specialized training for account managers and the development of innovative products—from special programs for professionals, such as lawyers, doctors and accountants, to the newly developed Independent Business Services Plan. This provides clients with a selection of key services for a single monthly fee, eliminating the multiplicity of charges which some entrepreneurs find irritating.

For more than a decade, the Royal has been a leader in creating specialized educational materials for independent business owners and managers. In 1974, we introduced the Your Business Matters series of booklets on a variety of subjects including financial management, accounting and advertising.

Last year, a guidebook on business succession planning, dealing with the sensitive subject of contingency planning for death or disability, was added. This series has been strongly acclaimed by entrepreneurs for making a contribution to the viability of their businesses.

Agriculture

As Canada's leading agricultural bank, the Royal is committed to helping farm clients become better financial planners and managers. This is the cornerstone, we believe, of any farmer's ability to deal successfully with the cyclical nature of farming.

Our Winnipeg-based agricultural group has organized Farm Financial Management seminars over the past three years in selected rural communities. These seminars provide knowledge of basic

financial management while encouraging both husband and wife to share responsibility in running a farm.

Agricultural banking products are specifically designed to encourage sound financial management. During 1985, we further enhanced our unique cash-flow monitoring program, Farmchek, which allows farmers to track the expenses and receipts associated with every farm item as part of their regular monthly banking routine. To promote Farmchek, a video program was produced for viewing at home or in the branch.

Another major project involves the RoyFarm Financial Planning Guide. This is the farm equivalent of the business budgeting process and provides farmers with essential information about their operations. The guide, which has been used by farmers for many years, will soon

be available as micro-computer software, allowing thousands of computer-equipped farmers to automate the often-tedious process of budgeting. Free copies of the software will be made available to the agricultural faculties of Canadian colleges and universities, where many farmers receive training.

Commercial Banking and National Accounts

Commercial Banking and National Accounts has the largest share of a market that includes 30,000 Canadian companies with sales exceeding \$5 million, as well as public sector entities. In serving this widely diversified market, the Bank selects customers carefully and targets client sectors with specialized programs. The success of this approach is underscored by a



David Pollock (R, above), the Royal's vice-president responsible for Vancouver's Expo 86, chats with Desirée Gibson, head of an on-site branch near a preview centre that opened for



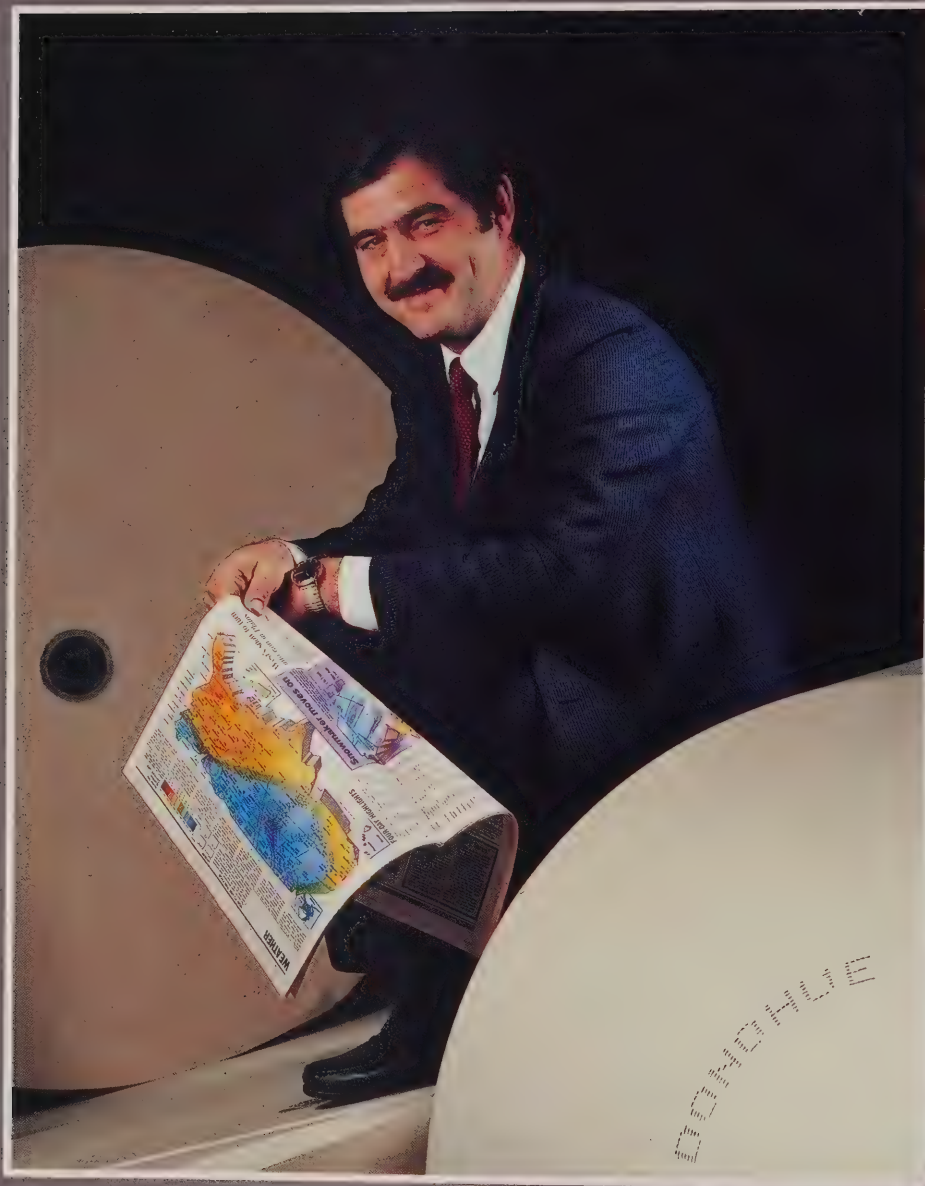
the summer of 1985—a year in advance of Expo itself. Jeff McNair (R, above), the exposition's vice-president, marketing, and Pollock meet often to review progress.



Attracting millions of visitors to British Columbia's futuristic Expo 86 this summer is the challenging task of Jeff McNair, the exposition's vice-president, marketing. As Expo's official bank, the Royal has been working hand-in-hand with Expo executives to ensure visitors have easy on-site access to banking service through four special retail branches and 16 Personal Touch Banking machines. The Royal also provides commercial banking services, including payroll and electronic cash management, to the Expo corporation.

GERMAIN LECOURS

DONOHUE INC.
QUEBEC CITY



Donohue Inc., an integrated forest products company, is successfully meeting stiff world competition in the newsprint market. The company has invested heavily in modern production equipment and concluded long-term supply and joint-venture agreements with major U.S. publishers. As lead bank, the Royal provides term loans, operating lines of credit, electronic payment processing and extensive foreign exchange services, as most of the company's sales are in U.S. dollars. Germain Lecours, Donohue's vice-president, finance and treasurer, co-ordinates this multi-faceted banking relationship.

key performance measure: the Royal has connections with some 80 per cent of those firms targeted as "premium customers".

These customers are placing more sophisticated demands on their bankers. Those demands go well beyond traditional credit to encompass a broad range of financial services, including electronic cash management and payroll, trade finance, treasury and foreign exchange.

Responding effectively to our customers' financial management needs is a recognized Royal Bank strength. Service and technological innovation is the norm, and a sign of the Bank's determination to anticipate rapid change in those needs. Yet, the Royal's "difference" is that it encourages business customers to

challenge its capabilities and to become actively involved in the development of more imaginative, effective service and delivery methods. To keep close to customers, account managers are assuming more responsibility and visibility in the delivery of service.

Business loan demand remained soft in 1985, and some customers continued to experience difficulty. In this environment, the Royal is placing major emphasis on managing its existing loan portfolio, together with finding better ways to help customers solve financial problems. Last year, the Bank introduced a number of new financing products—Commercial Mortgages, Term Bankers' Acceptances and FlexFinancing, a short-term, fixed-rate financing vehicle for public sector entities.

In the past decade, the Royal has strengthened its

position as the leading cash management bank, aggressively marketing bank-wide professional expertise and technological capability. The Bank has far more customers using its electronic CashCommand service than any other provider of a similar service in Canada.

Corporate treasurers increasingly use personal computers and need more flexible electronic delivery of financial management services. In 1985, the Bank became the first Canadian financial institution to introduce a comprehensive PC-based service package.

Through the Royal's PC CashCommand and PC Payroll services, treasurers can now access their company's financial information from our system using microcomputers located in their offices. After retrieving information, clients can use PCs to store and manipulate data in the

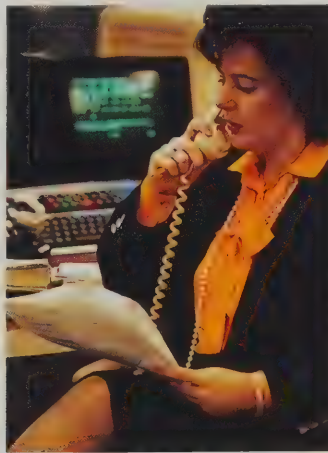
spreadsheet formats most useful for their specific needs. Services available via PC include consolidated account information, funds transfers, money market and foreign exchange information, electronic letters of credit and remote payroll entry. We expect rapid growth in demand for these services.

Security of information is a prime concern in the use of personal computers. The Bank took the lead in this area by enhancing PC service with "smart card" technology, a micro-chip card system that allows corporate treasurers to control access within their firms.

Our commercial bankers build business by matching customized service packages with the needs of specific market sectors. This has been successful in the public



The Royal team serving newsprint exporter Donohue Inc. is co-ordinated by account manager Jean-Louis Mongrain (L. above), who confers with Jean Bélard, vice-president, national accounts, in Montreal.



A key team member is Myriane Bota, in the regional treasury services unit. She handles foreign exchange and other international transactions for Donohue.

sector, where in 1985 we recorded substantial gains and became the exclusive banker to the Saskatchewan government. Other market initiatives were directed at the Canadian industrial development community and non-profit fund-raising organizations. For example, in 1985, we introduced Pledge Collector, an electronic cash gathering and reporting service for charities.

The Bank actively exchanges knowledge with its business customers. Information is itself a service and clients are offered such resources as briefings by Bank economists and the bi-monthly Canadian Treasury Management Review, which is read by 2,200 corporate treasury managers. In addition, the Royal is active in forums involving specific

client groups and industry sectors, such as insurance, industrial development and franchising, to name a few.

In the information exchange process, account managers are the contact points. They focus on learning from our customers and understanding their needs, as "listening" is fundamental to the Bank's ability to offer better service. This is the foundation of the Royal Bank's position as Canada's leading supplier of financial services to business.

Treasury and Money Markets

World financial markets are in constant motion, with interest rates, foreign exchange rates and financing techniques rapidly changing. The Bank maintains an active, around-the-clock presence in those markets to meet clients'

needs, and to manage its own financial position.

The Treasury and Money Markets Division operates as the Bank's trading and financial markets arm. In 1985, the Division registered by far its strongest earnings performance since being formed two years earlier. Trading income increased substantially over 1984. Bank traders deftly capitalized on the rising market values that came with generally-declining interest rates, as well as on the hour-by-hour fluctuations that prevailed in world foreign exchange markets.

The Division meets a wide variety of client service needs. Canadian exporters require the conversion of foreign sales revenues into Canadian dollars at assured rates of exchange. Some companies may need foreign exchange forward contracts stretching a decade into the

future. Increasingly, multinationals and public sector borrowers use innovative financial instruments, such as interest rate and currency swaps, to manage their interest rate exposures. Of special importance to clients is the Division's 24-hour trading capability. Traders and service officers in seven regional units across Canada and in key world financial centres routinely offer to execute trades at any hour in markets around the globe.

Among the Division's principal roles are to serve as "banker to the Bank" and to manage the Bank's liquidity position. In effect, it takes deposits from other Bank divisions and raises "wholesale" funds from other banks,



Alberta's main electricity producer, TransAlta Utilities Corporation, uses a package of Royal services including treasury, merchant banking and cash management. Gordon Tallman (L) Royal vice-president, Calgary, keeps in touch with TransAlta's chief financial officer Harry Schaefer and chairman Marsh Williams (R). In right photo, automated services officer Laurie White calls on company payroll supervisor Michael D'Angelo (seated) to help install the Royal's PC Payroll system.

corporations, pension funds and public sector institutions. Treasury also places the Bank's funds in money, bond, and stock markets, and manages the reserves that must be maintained with the Bank of Canada.

Treasury and Money Markets applies particularly high standards of prudence and control to its trading operations. Ample liquidity is maintained through the management of money market instruments combined with continuing diversification of the deposit base. Foreign exchange exposures are kept within strict limits. Interest-sensitivity "gaps" between loans and deposits are also closely controlled to ensure the maintenance of consistent spreads between interest yields and costs.

Treasury earns substantial fee income by serving Bank clients. Particular strengths are foreign exchange trading and dealing in "investment banking" products such as swaps, options and financial futures. A strong trend in the marketplace to blend investment with commercial banking services means that Treasury increasingly supports the Bank's Canadian commercial and world corporate account managers in dealing with their clients.

Capital market activity, particularly interest rate and currency swaps, is a key growth area. This reflects the sophistication of financial managers in the corporate and government sectors. Keenly aware of market trends, they are opening banking relationships to more competition from one transaction to the next. Offering these

clients leading-edge treasury management techniques is vital to the competitive strength of the Bank as a whole.

The Royal ranks among the top five North American banks in foreign exchange markets, especially in the Canada/U.S.dollar and U.S./Sterling markets. Treasury has diversified into other currencies, notably Deutsche-marks and Yen, as well as currency composites such as European Currency Units. Foreign exchange service supports the Bank's trade finance capabilities and its banking relationships with many corporations.

Convenient delivery of Treasury service to clients is a priority. In 1985, the network of seven regional Treasury units across Canada was completed. These units, staffed by specialized officers, offer "one-stop shopping" – so that

a single client phone call can yield a full range of money management alternatives, in Canadian and foreign currencies. The units also serve individual investors and depositors who require special attention.

The Division's trading and service capabilities were expanded with the opening last spring of a new trading room in Toronto. Equipped with the latest technology, it combines Canadian money market and bond trading operations with international money market and foreign exchange desks. This is in line with the increasing global integration of financial markets.



Leadership in consumer education gives an edge to Royal branch managers like Louis Comeau in Grand Falls, N.B., who talks to Mayor Gerald Carroll (L) about a popular retirement planning booklet. It is part of the "Your Money Matters" series produced by Montreal head office staff including Jean Harris, Public Affairs, and Alex Steven (R), Retail Banking.

International and Corporate Banking

Banking in the eighties has become an intensely competitive and difficult business and this is particularly true of the markets served by our International and Corporate Banking Group in Canada and 43 other countries around the world.

This Group includes the International Banking Division, which manages a network serving a number of markets: trade finance; correspondent banking; retail, private, commercial, corporate and government banking outside Canada. World Corporate Banking brings the Bank's resources to bear on large multinational corporations, many of them Canadian-

based. A third element is the Bank's merchant and investment banking network, including Orion Royal Bank Limited in London and other subsidiaries in major financial markets. A key resource in our international operations is the worldwide trading and market expertise of the Treasury and Money Markets Division.

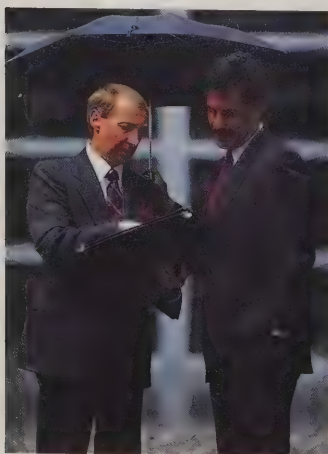
The business environment continued to become more complex in 1985 as the flow of capital around the globe accelerated in its quest for markets offering the best rate of return. This internationalization of the capital markets, along with so-called securitization, has spawned a host of new products. Interest rate and currency swaps are typical. These two capital-market products accounted for international financial transactions in excess of \$100 billion over the past year.

Technology is enabling many of the changes now taking place in our markets, where the ability to trade and deal in negotiable securities—on an almost instantaneous basis worldwide—is now a dominant feature. The consequent blending of commercial and investment banking has become a major force in the pressure for deregulation in a number of financial markets.

A central concern in 1985 was the continuing debt management problems confronting so many of the world's developing countries—an issue which has dominated international banking for the past three years. While progress has been made during this period in addressing the immediate debt servicing problems of these countries, long-term solutions remain elusive. An encouraging development, however, was a set of proposals designed to foster stronger sustained

growth in developing nations, introduced late in the year by US Secretary of the Treasury, James A. Baker III. These proposals were still in the discussion stage at year end.

Despite a backdrop of fierce competition, accelerating change and continuing weakness in many markets, earnings from our international operations and corporate banking business offshore and in Canada improved markedly over last year. Key factors were growth in interest payments from debtor countries and increased earnings from investment banking activities.



Paul Pearl (R, above), president of high-tech exporter Dipix Systems, gets an overview of the Royal's worldwide network from Mike Green, our Ottawa-based trade specialist.

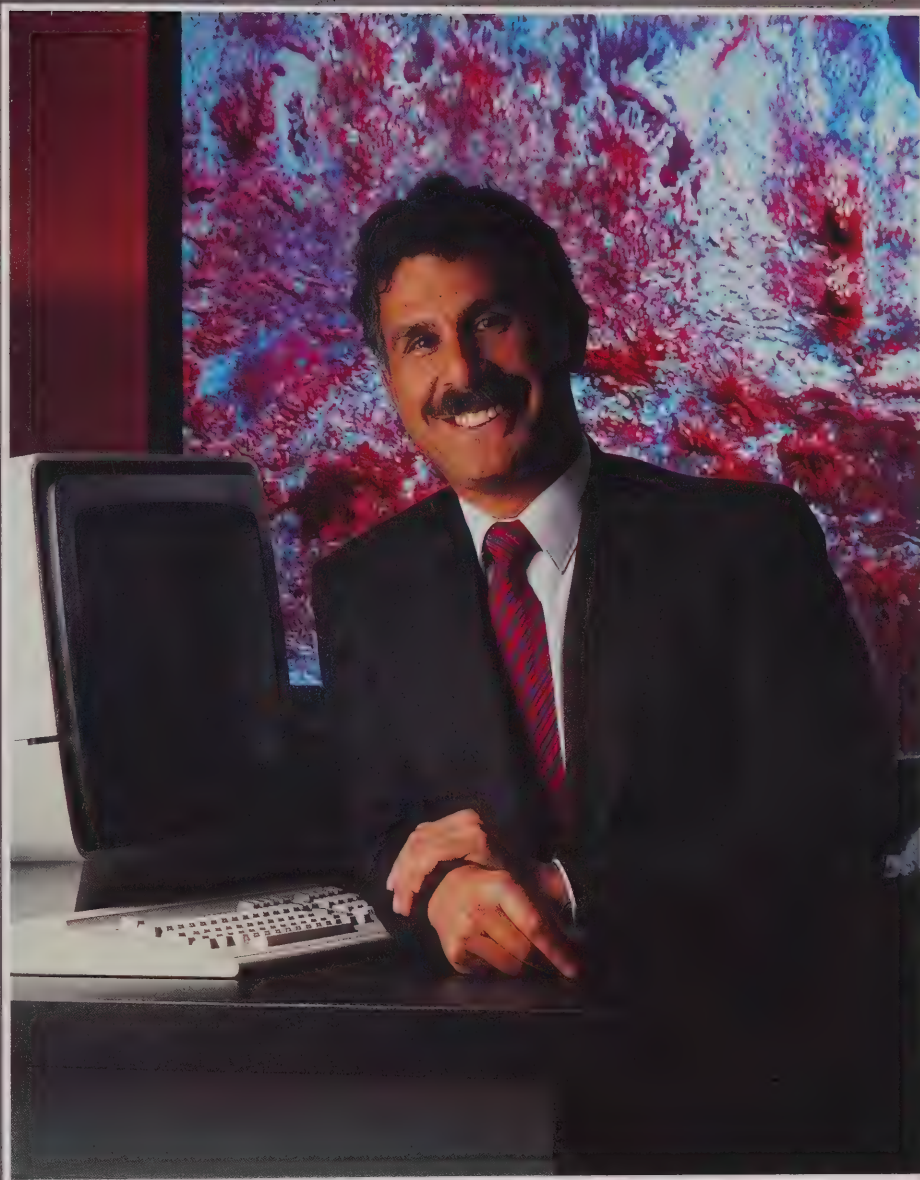


In China, Paul Au, the Royal's regional representative, provides Dipix with on-the-ground support in banking and trade transactions as well as assistance with the company's marketing efforts.

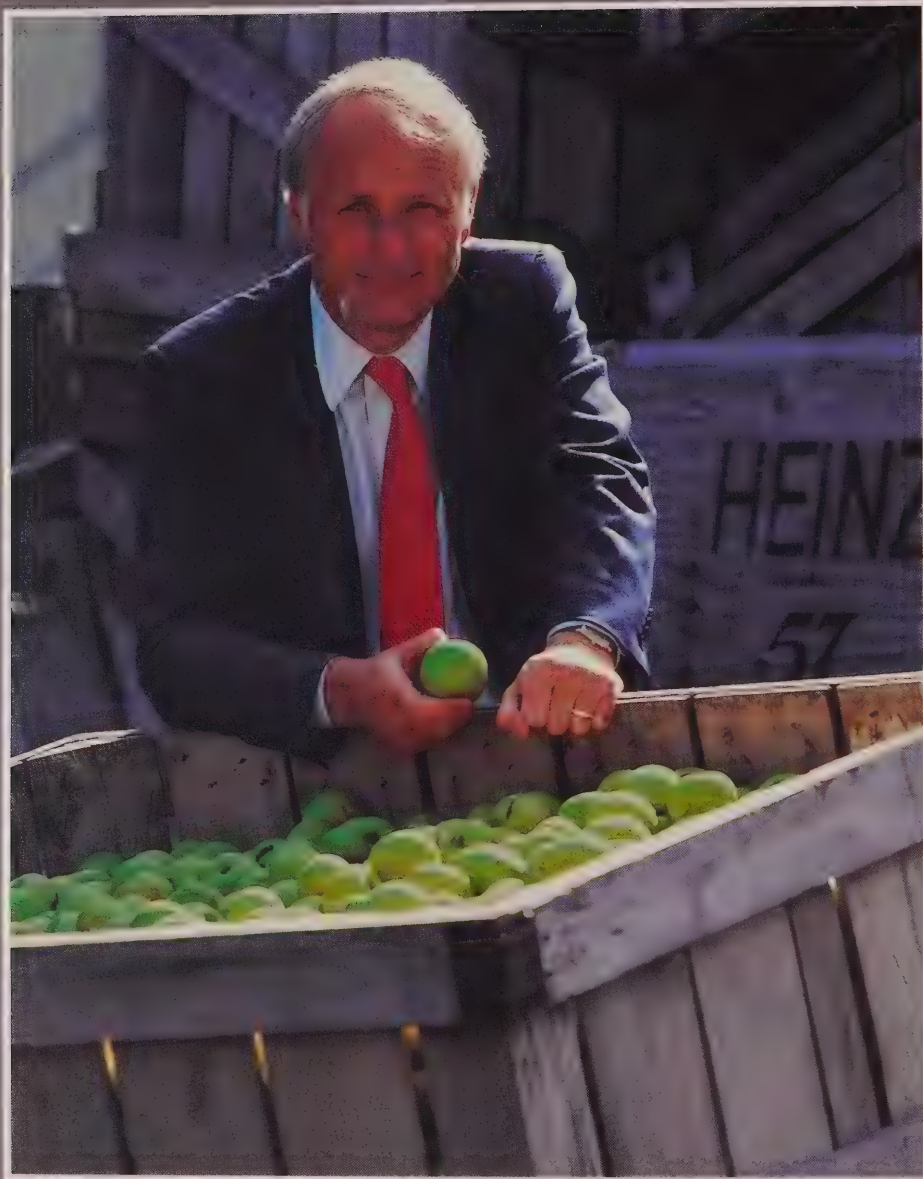
PAUL PEARL

DIPIX SYSTEMS LIMITED

OTTAWA



Dipix Systems Limited of Ottawa has built a Canadian export success story with its electronic image analysis systems. These are used to process satellite images and aerial photography in such applications as crop forecasting and mineral prospecting. Paul Pearl heads the company, which was incorporated in 1978 by a small group of engineers. Today, it employs 115 people and has systems installed around the world. The Royal Bank has been the company's banker from the start and now delivers service via specialized trade finance and high technology units in Ottawa.



H. J. Heinz, a household name in food products, is a major U.S. multinational. Karl von der Heyden, senior vice-president, finance, (seen checking produce supply) directs Heinz's corporate finance activity with a sharp eye for identifying opportunities in financial markets worldwide. Last year, our London-based merchant banking subsidiary Orion Royal Bank offered such an opportunity, an Australian-dollar bond issue in the Euromarket—attractive financing for the company's Australian operations. Orion Royal was the market leader in 1985 for Euro-Australian dollar bond issues.

International Banking

The groundwork in expense management laid in 1984 started to bring costs more in line with realistic revenue expectations in 1985. Greater productivity from the Bank's international operations is a continuing objective and in this respect, the international network and the overheads it represents are a key element. By year end, the network was appreciably closer to the needs of our customers. We have streamlined or sold operations in some markets, mainly the Caribbean, and expanded elsewhere.

Early in the year, we acquired the outstanding shares in Brazil's Banco Internacional S.A. from our partner in this venture, Bank

of America. The restructured and recapitalized subsidiary, the only Canadian-owned commercial bank in that country, operates from headquarters in São Paulo, with branches in three other cities, as Banco Royal do Canada (Brasil) S.A.

Working through the Bank's Quebec International Centre, this subsidiary has already put together an attractive financing package involving the purchase of Brazilian-made paper making machinery by a major Canadian paper company. The purchaser was able to take advantage of the lower interest rate costs available through FINEX, Brazil's export promotion program. This shows the importance of being able to operate effectively at both ends of a trade transaction – a key point in our network development strategy.

The restructuring of our operations in Puerto Rico began early in the year. The renamed subsidiary, Royal Bank de Puerto Rico, has 16 branches serving the retail market; in addition, four Royal Bank branches focus primarily on the commercial market. Together, these units represent an asset base of almost US \$1 billion.

At year end, the Bank further strengthened its European presence by opening a representative office in Milan. At mid-year, we unveiled plans for a major new building in London which, when opened in late 1987, will accommodate our European headquarters and the operations of Orion Royal Bank and its UK-based subsidiaries.

Our Asia Pacific operations were also expanded in 1985 with the addition of a second representative office in

China. It is located in Shenzhen, the most advanced of China's special economic zones, which were established five years ago to stimulate foreign investment through special incentives and regulatory exemptions. Permission was also received last year from the Indian regulatory authorities to open our first office in that country, to be located in Delhi.

Plans to establish a joint venture bank in Australia advanced during the year. This new group, to be known as National Mutual Royal Bank Limited, is expected to



Successful Euro-Australian bond issue for H. J. Heinz was structured by an Orion Royal Bank team including account executive David Woods (L, both photos), vice-chairman Philip Hubbard (R, above) and special-



ists in Australian-dollar bond sales, trading and settlements. Woods calls on Heinz senior financial officer Karl von der Heyden (R, above) at his Pittsburgh office.

open for business in early 1986. It includes a number of operating units—our partner's merchant bank, finance company and building society, along with RBC Australia Limited. Together, these units represent assets in excess of A \$1.5 billion. Our partner, the National Mutual Life Association of Australasia, is one of the largest financial institutions in Australia and New Zealand.

The sale of our operations in the Dominican Republic and in Jamaica was also successfully negotiated in 1985. In the Dominican Republic, the Bank's branches were acquired by Banco del Comercio Dominicano, S.A. Our

48-per-cent interest in Royal Bank Jamaica Limited was acquired by another shareholder, Jamaica Mutual Life Assurance Society, which now operates Jamaica's third largest bank under a new name, Mutual Security Bank Limited.

The rationalization process has enabled us to employ scarce resources more productively in other parts of the network. The result is that we are now much closer to achieving the geographic coverage and operational efficiencies required to support our initiatives in private banking, trade finance and correspondent banking, three significant sources of revenue.

The integration of the Bank's trade finance and correspondent banking groups last year enhanced the Bank's ability to serve its customers by strengthening marketing

and product management through the Bank's existing account management network. Our trade finance officers can now devote more time to assessing client needs and structuring financing packages.

At the end of 1985, the Bank introduced a new electronic trade finance service in Canada. Called LC Direct, it is capable of increasing customer productivity in applying for letters of credit by as much as 75 per cent. LC Direct is designed to link the customer's personal computer directly with a Royal Bank processing centre.

Private banking typifies the importance we attach to organizing activities around specific client groups, in this case high net worth individuals. Internationally, the process of bringing client and product together in this rapidly growing market is

accomplished through two main delivery units—The Royal Bank of Canada (Channel Islands) Limited, based in Guernsey, and The Royal Bank of Canada (Suisse), in Geneva.

The resources of these units, others within the Royal Bank and those of our affiliate, RoyWest Trust Corporation Limited in the Bahamas are focused on client needs through offices in New York, Miami, London, the Bahamas, Brussels, Frankfurt, the Channel Islands, Dubai and Hong Kong.

Outside Canada, the Bank is adopting a more selective approach—resisting the temptation to be "all things to all people". There are, however, exceptions to this rule, when



Tenneco Inc.'s diverse interests led to a worldwide relationship with the Royal. Senior financial officer Peter Menikoff (L, above, also opposite) has a central contact—account manager David Livingstone (R, above). With account activity in 13



countries, Livingstone mobilizes Royal resources including merchant banking specialists, Canadian cash management experts and London foreign exchange traders, among them Ray Peters (L, above) and Steve Hassler.

PETER MENIKOFF

TENNECO INC.
HOUSTON, TEXAS



Diversified interests of Tenneco Inc. include oil and natural gas, shipbuilding, construction and farm equipment, and packaging. This range is reflected in the array of banking arrangements overseen by Peter Menikoff, vice-president, corporate finance and treasury. One of Tenneco's top-tier banks, the Royal provides revolving credit lines, term loans, currency and interest-rate swaps, foreign exchange, trade finance and electronic cash management services. These are delivered both to the company's Houston headquarters and to nine Tenneco divisions in the U.S., Canada and Europe.

the Royal identifies "opportunity windows" in geographic markets where it is already committed. Our retail/commercial business in Puerto Rico is one example. Our UK-based subsidiary, Western Trust and Savings Limited, which began developing a profitable mortgage business in 1985 to complement other retail banking products, provides another.

World Corporate Banking

Building and maintaining a competitive advantage in the corporate sector remains a key element of the Royal Bank's business strategy. The multinational corporations served by the World Corporate Banking Division form a major part of this market.

Our success in attracting new clients and in expanding existing business with large corporations can be traced to three areas which received considerable management attention during 1985—technology, training and our relationship management system.

The Bank continued to invest in technology both for internal management information requirements and for new product development. These investments are critical to achievement of our goal to provide quality service in a highly cost-sensitive and competitive market.

Internally, global exposure and risk management systems were implemented during the year to enable the Bank to access and analyze information more quickly and accurately. These data, obtainable worldwide through

the Royal's international telecommunications network, enable account officers to manage their accounts more efficiently.

Externally, the impact of technology has been felt most forcefully in the rapid development of securities-based products, which now dominate the corporate market at the expense of conventional banking products. As well, the Royal's leading-edge cash management products and automated payroll systems enjoy broad market acceptance.

At the Royal Bank, our relationship managers act as financial quarterbacks responsible for focusing the Bank's resources on the specific needs of a client. The response from many corporate clients suggests that they recognize the advantages inherent in the relationship

management approach adopted when the World Corporate Banking Division was formed in 1983. The proliferation of new products and the increasing involvement of specialist groups within the Bank has made the task of managing a corporate relationship effectively more critical than it was in the past.

During the year, a Global Financial Markets workshop for our relationship managers was conceived and introduced. The prime purpose of these workshops is to ensure that all account officers are familiar with the new investment banking products and trends in the capital markets. The program, which has had



Senior vice-president Tony Webb (L) heads Royal Bank of Canada (Suisse), the Geneva link in our global private and merchant banking networks. Webb compares notes with John Gent, who manages the unit's growing Swiss-franc capital markets activity. In the trading room, foreign exchange and treasury manager Otto Portmann works closely with dealer René Schaller (R).

a strong and very positive response, will be continued in 1986 and expanded to include account managers from other areas of the Bank.

The Bank's multi-million-dollar commitment to technology, and to product development and delivery, has given us a technological edge in a number of areas. This is particularly evident in the retail merchandising sector, where the Royal is considered the industry leader with products such as CashCommand and a client list that includes many of Canada's major retail operations.

In 1985, for example, the Bank became the principal banker in Canada for Radio Shack, a division of Tandy Electronics of Fort Worth, Texas. The relationship was

developed through team effort, co-ordinated by a World Corporate Banking account management group. The team included our branch manager in Barrie, Ontario; Visa sales and technical staff; and specialists from the Bank's automated services centre, which is managed by the Commercial Banking and National Accounts Division.

Another familiar name to Canadians is Chrysler Corporation. The Royal Bank has had a banking relationship with Chrysler's Canadian subsidiary since the year after it was established in 1923. The Chrysler Group, including Chrysler Canada Limited, enjoyed a highly successful year in 1985 both in terms of sales and financial results. The Royal was acknowledged as the Group's principal Canadian bank during the year and co-ordinated several

major financings for Chrysler's Canadian subsidiaries. At year end, the Bank, through Orion Royal in London, formed part of the four-bank underwriting group for a US \$1 billion, multiple-option facility on behalf of the parent company.

Our relationship with the Chrysler Group involves a number of units in the international network including Chicago, New York and London. It is also a good example of the growing importance of our Merchant Banking Group and its investment banking products in the Bank's relationships with corporate multinational clients.

Merchant Banking

Large corporations increasingly are by-passing commercial banks in their traditional role and accessing the capital

markets directly to fund their debt. One positive consequence of this trend has been the growth in demand for the investment banking products provided by our Merchant Banking Group. This demand contributed significantly in 1985 to the growth in fee-based services.

Growth was broadly based throughout the group. Orion Royal Bank enjoyed its most profitable year ever and its capital markets group hit new highs in activity. Orion lead managed or co-managed 537 Eurobond issues with an aggregate value of US \$67.9 billion, a market share of 54 per cent.



The Royal's Pacific Rim activities encompass bustling, diverse markets. In Hong Kong, Brian Ellis (L) directs subsidiary InchRoy Credit Corporation and its thriving car-loan business. In Tokyo (right photo), Royal traders deal in Japanese foreign exchange and money markets to support our corporate banking and global treasury operations.

In the Euro-Australian dollar bond market, the fastest growing sector of the international capital markets in 1985, Orion Royal lead managed 27 of the 50 issues underwritten during the year, including issues for all four of Australia's major trading banks.

Orion Royal was also the market leader in the Euro-Canadian dollar bond market where it lead or co-lead managed 23 issues and co-managed 24 issues during the year, for a volume market share of 93 per cent. A number of issues were swapped into US dollars, with swap teams at Orion Royal and our own Treasury group working closely with the World Corporate Banking Division.

Orion Royal Pacific Limited, based in Hong Kong, broke new ground in 1985 in regional capital markets issues, arranging 36 with an aggregate value of US \$1.8 billion.

This subsidiary continued to do well in the fixed-rate certificate-of-deposit market, which it pioneered in Hong Kong. While syndicated loan activity slackened in 1985, Orion Royal Pacific acted as lead or co-lead manager for 13 transactions for borrowers in Asia totalling US \$2.7 billion.

China Investment and Finance Limited, which the Royal Bank owns and operates jointly with the China International Trust and Investment Corporation, completed its first year of operation profitably. Also based in Hong Kong, this bank provided advisory services to several major international companies contemplating or actually involved in investments in China. In addition, it made loans to a number of foreign joint ventures in several Chinese provinces.

While capital markets transactions were the dominant feature of the Royal Bank Group's investment banking activities in 1985, there were other important developments.

In April, Orion Royal Bank signed an agreement with the partners of Kitcat & Aitken, the London stockbrokers, to purchase a 29.9-per-cent interest in the firm. This will be increased to 100 per cent in 1986, considerably strengthening the Royal Bank's position in the newly deregulated market in London. Orion Royal took a further step into the equities market with the formation in September of Orion Royal Bank Equities of Canada, a new company to deal in the off-shore market for Canadian equities.

Orion Royal's mergers and acquisitions group enjoyed high levels of activity in 1985. Early in the year, the bank acted for General Electric, advising on that company's divestiture strategy for Simplex GE, and then orchestrating competitive bidding among several leading UK industrial groups. In the end, an offer from the management succeeded and the resulting transaction was the largest industrial management buy-out to that date in the United Kingdom.

In Canada, the shift from financing megaprojects to smaller but nonetheless attractive project financing

opportunities continued in 1985. The Bank was particularly successful in developing limited-recourse financing of account receivables, in effect monetizing assets to meet clients' corporate finance objectives. Venture capital and loan syndication reached new levels and the domestic mergers and acquisitions group expanded in response to market demand, especially from off-shore.

Since acquiring Orion Royal Bank in 1981, the Merchant Banking Group has expanded both geographically and in terms of the products it can deliver. As deregulation proceeds in many of the Bank's markets, investment banking will undoubtedly assume an even greater importance in our business strategy.

To obtain a complete picture of the Bank's operations in 1985, this Operational Review should be read in conjunction with the Financial Review that follows.

Management's Discussion of Financial Results:

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In this section of the Annual Report a detailed analysis of the Bank's financial performance during fiscal 1985 is provided as well as an explanation of how the Bank manages and controls credit, liquidity, and interest rate risks.

For analytical purposes, the Bank divides its results into two geographic segments: Domestic and International Operations. Domestic Operations include all business transacted in Canada, regardless of currency, with the exception of the Canadian-based activities of the Bank's international money market units. The Bank's business carried on outside Canada, as well as our international money market function, comprise International Operations.

In this segmentation of Domestic and International results, appropriate allocations have been made for corporate non-interest expenses and the cost of funds related to liquidity and capital.

Overview of 1985 Results

The Royal Bank of Canada earned \$488 million in 1985, an increase of \$38 million or 8% over the \$450 million earned in 1984. Basic income per common share was \$4.28, up from \$4.25 last year. The average number of common shares outstanding in 1985 was 97.3 million versus 90.8 million in 1984. Earnings per share on a fully-diluted basis amounted to \$3.91, slightly higher than the \$3.87 reported in fiscal 1984. This measure takes into account common shares that would be issued on conversion of certain debentures and preferred shares, as well as by the exercise of warrants.

The Bank's return on assets (ROA), an important indicator of profitability, was .53%, up marginally from the preceding year. The Bank's ROA is made up of a Domestic ROA of .56% (.65% in 1984) and an International ROA of .47% (.29% in 1984). The return on common shareholders' equity was 13.5%, down from 13.8% last year. This decline was primarily a result of reduced leverage, as the growth in common equity was not matched by a comparable increase in assets. In addition, the Bank paid out a greater amount of preferred share dividends than in 1984.

At October 31, 1985, total assets were \$96 billion, an increase of \$8 billion or 9% over the previous year end. As in fiscal 1984, solid gains were made in both personal and mortgage lending in Canada. At year end, these categories accounted for \$9.3 billion and \$10.6 billion in outstanding balances respectively. The Bank also increased its holdings of securities — mainly Government of Canada securities and U.S. Treasury bonds — by about \$3 billion. Additionally, during the year the Canadian dollar fell nearly 4% against the U.S. dollar and this served to boost the translated value of our U.S. dollar-denominated assets by \$1.4 billion. Partially offsetting these increases was a reduction in the Bank's level of international interbank redeposits as well as weak business loan growth both in Canada and abroad.

Chart 1

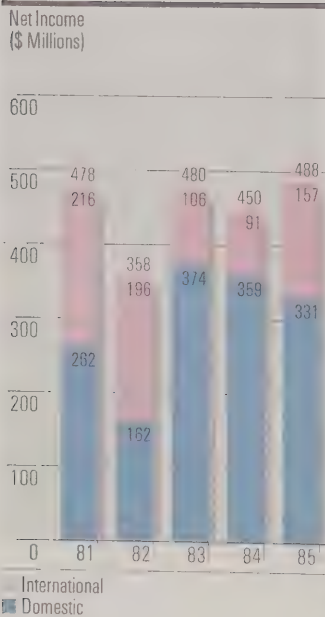


Chart 2

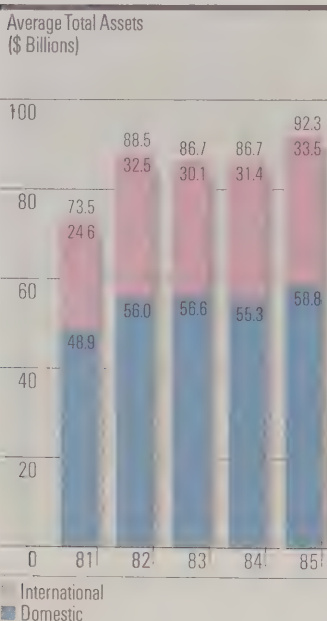


Table 1

Highlights of Domestic Earnings

(as a per cent of average assets)

	1985	1984	1983	1982	1981
Net interest income (taxable equivalent basis)	3.27%	3.41%	3.41%	2.67%	2.95%
Provision for loan losses	.58	.59	.55	.46	.28
Other income	2.69	2.90	2.86	2.21	2.67
	.99	.90	.80	.71	.65
Non-interest expenses	3.68	3.86	3.72	2.92	3.32
	2.60	2.58	2.44	2.33	2.27
Income taxes (including taxable equivalent adjustment)	1.08	1.28	1.28	.59	1.10
	.52	.53	.62	.30	.55
Minority Interests					.01
Return on assets	.56%	.63%	.68%	.29%	.54%
Net income (\$ millions)	\$ 331	\$ 355	\$ 375	\$ 162	\$ 262
Average assets (\$ billions)	\$58.8	\$57.1	\$50.0	\$56.0	\$48.9

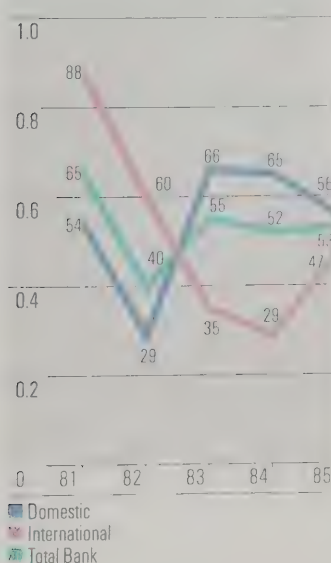
At October 31, 1985, the Bank's total capital funds reached \$5.9 billion, a gain of \$840 million or 17% over the preceding year end. The additional capital was derived from three principal sources: \$234 million from the retention of current earnings, \$414 million from net new debenture issues, and \$192 million from the issue of shares under the Shareholder Dividend and Share Purchase Plan.

Strong growth in capital combined with relatively modest growth in total assets strengthened the Bank's capital ratios. At October 31, 1985, base capital, base capital equivalent, and adjusted total capital ratios, as defined by Canadian bank regulators, were 3.7%, 4.2%, and 5.3% respectively compared with 3.6%, 4.0%, and 5.0% respectively at year-end 1984. A more detailed discussion of the Bank's capital position and ratios is found on page 49.

Domestic Operations

Inevitably, the results of the Bank's Domestic Operations mirror underlying trends, strengths, and weaknesses in the Canadian economy. In 1985, economic recovery in Canada continued at a healthy but uneven pace. Economic expansion was largely attributable to increases in personal spending, particularly on durable goods, and to gains in residential and non-residential construction. One consequence was strong growth in consumer and mortgage loans, as the Bank improved its overall market share in both of these key segments.

Chart 3

Return on Assets
(% of Average Assets)

However, these gains in the retail sector were offset somewhat by continued weak credit demand in the large commercial and corporate markets. Capital spending in Canada has started to pick up only recently, and in many cases is being financed by the issuance of debt securities or equity rather than by bank borrowings. Furthermore, many resource-based companies in western Canada continued to restructure balance sheets and reduce bank debt amid uncertainties regarding the future of oil prices and interest rates.

Earnings from Domestic Operations were \$331 million in the year just ended, a decline of 8% from 1984.

For fiscal 1985, total Domestic assets were \$58.8 billion, up 6% from the previous year. Net interest income was virtually unchanged from 1984 but the overall domestic net interest margin declined from 3.49% in 1984 to 3.27% in 1985.

Other income from Domestic Operations rose 10% to \$585 million in 1985. Much of the increase was attributable to higher Visa usage and a greater number of deposit account transactions, a consequence of strong consumer spending and excellent market acceptance of Royal Bank services.

Domestic non-interest expenses — encompassing salaries and benefits, property costs, computer and telecommunications expenses, and other costs of doing business — grew by 7% in 1985. This increase partly reflects the rapid growth occurring in the consumer sector, which is characterized by

higher overhead costs. Expenditures on computers and telecommunications technology — an investment which will yield improved service for customers as well as cost savings for the Bank in the future — rose considerably.

In 1985, the Domestic loan loss experience fell 9% to \$345 million. Because of the five-year averaging formula applied to loan loss experience, the charge to Domestic earnings (the provision for loan losses) rose to \$343 million in 1985, an increase of \$16 million or 5% from 1984. Nonaccrual loans, net of provisions for losses, were \$1.2 billion at October 31, 1985, down from \$1.4 billion at the previous year end. In comparison to last year, the net interest yield on this portfolio rose from 1.3% to 2.2%. The subject of nonaccrual loans and loan losses is discussed in detail on pages 38 to 41.

International Operations

This past year was one of significant improvement for the Bank's International Operations. Earnings rose \$66 million to \$157 million, representing an increase of 73% over 1984's depressed level. Return on assets of .47% was 18 basis points higher than the .29% of last year.

During 1985, the level of International nonaccrual loans, net of provisions for losses, declined slightly to \$1.2 billion. Of this amount, approximately \$630 million represents advances to public sector borrowers (governments and agencies) with the balance being made up of loans to the private sector. During 1985, the net interest yield on average International nonaccrual loans rose to 9.3% from 3.1% in 1984, largely due to higher interest receipts from public and private sector borrowers, particularly in Argentina and Venezuela.

Table 2

Highlights of International Earnings

(as a per cent of average assets)

	1985	1984	1983	1982	1981
Net interest income (taxable equivalent basis)	2.06%	1.73%	1.65%	1.85%	2.26%
Provision for loan losses	.83	.66	.47	.46	.21
Other income	1.23	1.07	1.18	1.59	2.05
Non-interest expenses	.70	.56	.59	.57	.74
Income taxes (including taxable equivalent adjustment)	1.93	1.63	1.77	2.16	2.79
Return on assets	1.25	1.20	1.19	1.13	1.20
Net income (\$ millions)	.68	.43	.58	1.03	1.59
Average assets (\$ billions)	.21	.14	.23	.43	.71
Net income (\$ millions)	.47%	.29%	.35%	.60%	.88%
Average assets (\$ billions)	\$ 157	\$ 91	\$ 106	\$ 196	\$ 119
Average assets (\$ billions)	\$ 33.5	\$ 30.4	\$ 36.1	\$ 32.7	\$ 24.1

In fiscal 1985, International loan loss experience totalled \$340 million, down 6% from \$362 million in 1984. This figure includes a significant general provision for country lending related to the Bank's aggregate exposure to countries which are experiencing financial difficulty. The general provision is in addition to any specific provisions made against private sector borrowers in those countries. The provision for loan losses charged to International earnings was \$278 million, an increase of 34% from 1984.

On the positive side, impressive growth was once again achieved in other income, which rose 32% to \$234 million. Significantly higher revenues from foreign exchange trading and from underwriting activities were the principal reasons for this improvement.

International non-interest expenses grew more rapidly than anticipated, rising 11% over 1984. If one excludes the impact of higher translation rates on foreign currency denominated non-interest expenses, the rate of growth would have been 7%, the same as Domestic Operations. Continuing effort is being made to rationalize the Bank's international network, and this has resulted in one-time costs relating to the closing of certain operations and to staff reduction.

A number of initiatives were taken within the international network in 1985 to streamline International Operations and to reposition the Bank to take advantage of new business and regulatory developments abroad. These included an agreement to participate in a new joint venture bank in Australia, and the purchase of an interest in the U.K. stockbroker Kitcat & Aitken. In addition, the Bank purchased the outstanding shareholder interests in its Brazilian affiliate, Banco Royal do Canada (Brasil) S.A. (previously Banco Internacional S.A.), and sold some of its other branch and subsidiary interests in Latin America and the Caribbean.

In conclusion, while the increase in earnings from International Operations was encouraging, its return on assets was below historical levels. Improvement will depend to a great extent on the success of sovereign debt rescheduling agreements, the rate at which nonaccrual loans can be reduced, and further network rationalization.

Net Interest Income

Net interest income is the most important source of revenue for banks. It represents the difference between what a bank earns on loans and investments and what it pays on deposits and debentures. For analytical purposes, net interest income is adjusted to take into account the tax-exempt nature of income from certain securities which include loan equivalents such as term preferred shares, income debentures, and small business bonds. (For a further discussion of the effects of tax-exempt income, see Income Taxes, page 44.) Including this taxable equivalent adjustment, net interest income totalled \$2.6 billion in 1985, an increase of over \$100 million from 1984.

Net interest income is the product of: 1) the net interest margin or average spread between the yield on assets and the cost of liabilities, and 2) the amount of average earning assets in the portfolio. A volume/rate analysis of the changes in net interest income is shown in Table 3. Additionally, on page 54 in the Supplementary Financial Information Section, a five-year average balance sheet showing the yield or cost of each major balance sheet category is provided.

Average asset growth of 7% in 1985 was responsible for \$157 million of the improvement in net interest income but was partially offset by lower margins, which accounted for a \$16 million reduction. Net interest income was 2.83% of average total assets, 3 basis points lower than in 1984. The overall yield on assets fell by 52 basis points while the average cost of funds declined only 49 basis points. Domestic and International net interest margins are illustrated on Chart 6. Because of a large retail component with higher associated overhead costs, Domestic Operations traditionally have required a higher margin than the Bank's International Operations, which are largely wholesale in nature. During the year, the Domestic margin fell 22 basis points to 3.27%, while the International margin improved 33 basis points to 2.06%.

Several factors contributed to the lower spreads on Domestic business. First, as interest rates moved lower during the year, the average cost of funds declined less rapidly than the yield on assets. Second, the switching of consumer deposits from lower to higher yielding categories, most notably to the tiered-rate daily interest chequing account, increased the overall average cost of these funds. Third, as a result of strong consumer deposit growth relative to loan demand in the marketplace, pricing on loan instruments became increasingly competitive, resulting in narrower overall margins. This was particularly evident in the mortgage market where price competition was intense. Despite these developments, profitability of consumer operations, while lower than 1984, remained at a satisfactory level.

Chart 4

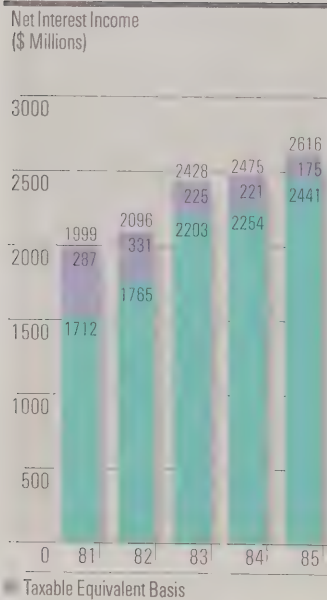


Chart 5

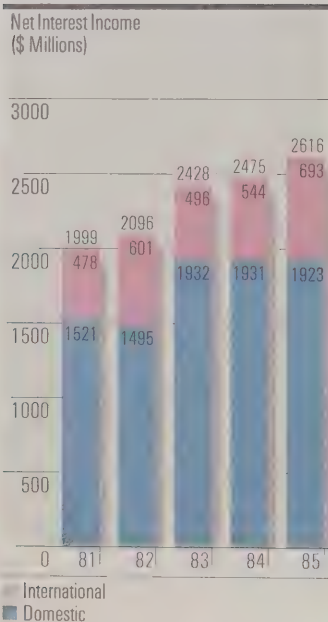


Chart 6

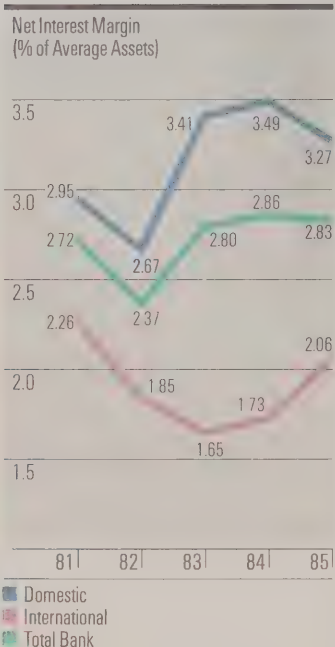


Table 3

Analysis of Changes in Net Interest Income

(\$ Millions)

	1985 vs 1984			1984 vs 1983		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Average Volume(1)	Average Rate(1)	Net Change	Average Volume(1)	Average Rate(1)	Net Change
Assets						
Deposits with other banks	\$135	\$ (31)	\$104	\$101	\$ 28	\$129
Securities	119	(112)	7	7	13	50
Mortgages and instalment loans	222	(15)	207	224	(14)	210
Other loans in Canadian currency	117	(140)	(23)	(208)	88	(118)
Other loans in foreign currencies	20	(188)	(168)			1
Total interest income	613	(486)	127	106	26	132
Liabilities						
Demand deposits	(15)	(25)	(40)	(9)	(7)	(16)
Deposits by banks	40	(119)	(79)	20	(27)	(7)
Other deposits in Canadian currency	231	(84)	147	54	(77)	(11)
Other deposits in foreign currencies	166	(236)	(70)	68	(58)	(29)
Debentures and other liabilities	34	(6)	28		(7)	(7)
Total interest expense	456	(470)	(14)	45	40	85
Net interest income	\$157	\$ (16)	\$141	\$ 61	\$ (14)	\$ 47

(1)Rate/Volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.

As mentioned, a key determinant of net interest income is the nature and cost of the Bank's deposits. Chart 8 provides a breakdown of our Domestic deposit balances, which rose to \$49.5 billion. Notice deposits once again registered impressive growth, although relative deposit costs increased due to intense pricing competition and more rapid growth in the higher cost categories. Over time, this stable source of deposits will have a direct positive effect on earnings.

Internationally, the net interest margin, although still below the level of 1980 and 1981, improved markedly from last year. As indicated previously, much of the increase was due to the receipt of interest from sovereign borrowers who, during the year, made progress in meeting their financial obligations.

Chart 7

Fixed Rate Lending Portfolio Yield versus
Portfolio Cost of Personal Term Deposits
(including Reserve Costs) (Per Cent)

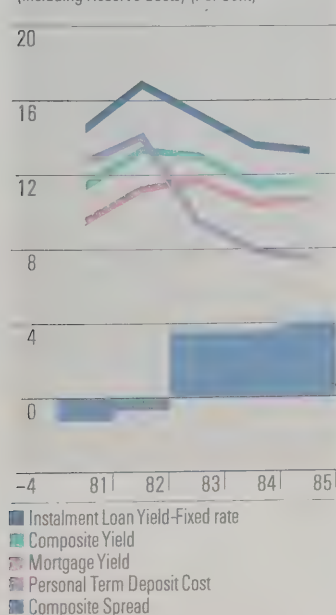


Chart 8

Domestic Deposits
(as at October 31)
(\$ Billions)

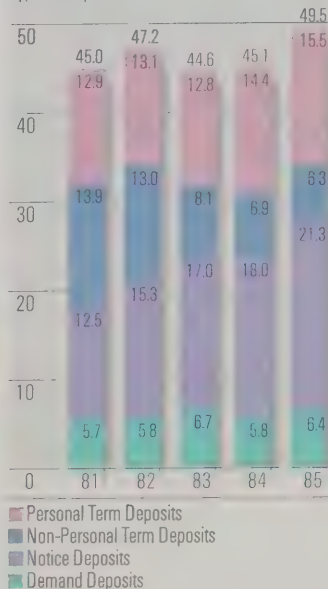


Table 4

Net Gains (Losses) on Disposal of Securities

(\$ Millions)

	1985	1984	1983	1982	1981
Equity securities.....	\$34	\$31	\$49	\$15	\$ (3)
Debt securities(1)	(5)	(17)	(22)	(24)	(21)
Total	\$29	\$14	\$27	\$ (9)	\$(24)

(1) Gains (losses) on disposal of debt securities represent the portion of gains and losses amortized to income in the year indicated.

Table 5

Interest Earned on Nonaccrual Loans (1)

(net of provisions for losses)

(\$ Millions)

1985

1984

Domestic

Average balances	\$1,389	\$1,117
Interest earned	\$30	\$19
% Yield	2.2%	1.3%

International

Average balances	\$1,208	\$1,197
Interest earned	\$121	\$37
% Yield	9.3%	3.1%

Total

Average balances	\$2,597	\$2,314
Interest earned	\$151	\$56
% Yield	5.6%	2.1%

(1) Interest earned on nonaccrual loans comprises interest received on nonaccrual loans net of interest reversals on newly classified loans.

For the Bank as a whole, the net interest yield on net nonaccrual loans was roughly 6%, up substantially from the 2% earned in 1984. As highlighted in Table 5, the net yield for Domestic was 2%, while International provided a yield of 9%. In addition, the Bank had average balances of renegotiated reduced rate loans of \$169 million in 1985 and \$66 million in 1984, which generated a yield of 8.5% and 11.6% respectively.

As shown in Table 4, gains on the disposal of securities also had a sizable positive impact on the Bank's net interest income. The Bank manages, for its own account, a portfolio of debt and equity securities. For accounting purposes, gains and losses on the disposal of equity securities are recorded in the period in which they occur while bond disposal gains and losses are amortized to earnings over a five-year period. Financial markets were particularly favourable during 1985 as the equity markets reflected improved economic performance and the bond markets responded to lower interest rates. Equity gains amounted to \$34 million while amortized bond losses were \$5 million, for a net gain of \$29 million. This compares with a total gain of \$14 million in 1984.

Non-Performing Loans and Loan Losses**Non-Performing Loans**

Since 1982, non-performing loans and related loan losses have been the most important factors slowing the Bank's return to a more desirable level of profitability. It was expected that the general economic recovery and lower interest rates would ease the debt burden of those borrowers who were in serious financial trouble. This recovery, however, has proven to be extremely uneven, by both industrial sector and geographic region. Some industries, notably those in the oil and gas, real estate, and forestry sectors, have not fully participated in the recovery to date. For many of the Bank's clients in these industries, the turnaround continues to be difficult. In addition, in many countries, especially those in Latin America, weak demand for commodities, heavy debt-servicing obligations, and economic adjustment policies have dampened their full recovery.

Non-performing loans are segregated into two separate categories — nonaccrual loans and renegotiated reduced rate loans. Nonaccrual loans are those loans which have been placed on a cash basis (interest is not recognized as income until cash is received) because management feels that the collectibility of principal or interest is in doubt. When payment of interest is ninety days past due, loans are automatically placed on a nonaccrual (or cash) basis, except in certain instances where management has determined that the collectibility of principal and interest is not reasonably in doubt.

When a loan is placed on a nonaccrual basis, any previously accrued but unpaid interest on the loan is reversed; that is, deducted from income. Subsequently, interest received on nonaccrual loans is recorded as income only if management has determined that the loan does not require a specific provision for loss; otherwise, interest received is credited to the principal amount of the loan. Nonaccrual loans are restored to an accrual basis when principal and interest payments are current and there is no longer any reasonable doubt regarding collectibility.

Renegotiated reduced rate loans are those loans which, due to the weakened financial condition of the borrower, have been renegotiated to provide for a rate of interest lower than the prevailing market rates on similar loans to new borrowers.

Table 6

Non-Performing Loans (net of provisions for losses)

As at October 31

(\$ Millions)	1985	1984	1983	1982	1981
Nonaccrual Loans					
Domestic					
Atlantic Provinces	\$ 7	\$ 9	\$ 13	\$ 30	\$ 9
Quebec	115	90	87	53	21
Ontario	107	126	145	156	97
Manitoba	36	39	42	38	27
Saskatchewan	72	54	37	19	8
Alberta	376	367	681	777	44
British Columbia	518	522	627	709	30
	1,231	1,407	1,632	1,252	216
Of which:					
Consumer instalment, mortgages and other personal loans	55	77	133	113	48
Agriculture and independent business	289	279	253	281	290
Large commercial and corporate	887	1,051	1,244	847	69
	1,231	1,407	1,632	1,252	216
International (1)					
U.S.A.	373	277	464	488	—
Europe, Middle East and Africa	127	127	216	140	—
Latin America and Caribbean	680	832	486	466	17
Asia Pacific	38	40	30	5	—
	1,218	1,276	1,206	788	12
Total	\$2,449	\$2,683	\$2,838	\$2,040	\$ 228
Renegotiated Reduced Rate Loans					
Domestic	\$175	\$106	N.A.	N.	N.A.
International	5	—	N.A.	N.	N.A.
Total	\$180	\$106	N.A.	N.A.	N.A.

(1) Net of a general provision for country lending which has been allocated to the appropriate areas based on relative balances outstanding to problem countries.

During fiscal 1985, the Bank's level of total nonaccrual loans, net of provisions for losses, fell from \$2.7 billion at year-end 1984 to \$2.4 billion this year. As Table 6 illustrates, Domestic Operations were responsible for most of this decline. The majority of Domestic nonaccrual loans are to large commercial and corporate borrowers in the oil service, real estate, and forestry industries of western Canada. Renegotiated reduced rate loans, virtually all of which were Domestic, totalled \$180 million, up \$74 million from year-end 1984.

Net nonaccrual loans in International Operations were down modestly from 1984 to \$1.2 billion. Most of these loans are to large sovereign borrowers in Latin America and the Caribbean. Total public sector nonaccrual loans amounted to approximately \$630 million of the total.

As indicated in the section on Net Interest Income (page 38), nonaccrual loans generated an overall yield of approximately 6% in 1985, up from 2% in 1984. This improvement had a positive impact on our earnings. While the Bank is uncertain as to when or what portion of the uncollected interest will ultimately be collected, we nevertheless expect that improvement will continue.

The Third World debt situation continued to attract considerable public attention in 1985. Overall, progress was made on several fronts. First, the debt-servicing requirements of borrower countries were eased somewhat in 1985 as U.S. interest rates declined further from 1984's level and the U.S. dollar weakened in the last half of the year. Second, several sovereign borrowers in lesser developed countries were placed on a sounder footing as progress was made in adjusting their local economies to meet foreign debt obligations. Adjustment programs included an increased reliance on the private sector to boost economic growth. Finally, longer-term debt reschedulings in a number of countries, including Mexico, Venezuela, and Yugoslavia, are now being implemented.

Recent U.S. proposals for a multilateral approach to borrower country arrangements indicate the willingness of the American government to play a leading role in the development of an international plan for restoring borrower nations to creditworthiness. Thus, while significant sovereign debt difficulties remain, the prospects for continued progress are encouraging.

Loan Losses

With the failure in 1985 of a number of small Canadian financial institutions, concerns were raised about the quality of Canadian banks' loan portfolios. At the Royal Bank, the problem of loan losses has been dealt with realistically. In the 1984 Annual Report, it was stated that the loan loss experience had peaked. Evidence of this was that in 1985, while remaining high, nonaccrual loans and loan loss experience both declined for the second year in a row.

Loan loss experience represents the Bank's best estimate of the additional specific and general provisions required in respect of its loan portfolio. Specific provisions are established on a loan-by-loan basis to recognize anticipated losses on identified problem loans. General provisions are made in respect of the Bank's aggregate exposure to countries which have previously sought rescheduling of their external debt. Accumulated specific and general provisions are deducted in determining the loan balances recorded on the balance sheet.

Loan loss experience for a given year is equal to the sum of that year's loan write-offs, net of recoveries, and the year-over-year change in the accumulated specific and general provisions for losses carried on the balance sheet. The portion of the loan loss experience charged to income (called the provision for loan losses) is based on a formula prescribed by Canadian regulatory authorities, which has the effect of averaging the loan loss experience over a five-year period. Any difference between the loan loss experience and the provision for loan losses is charged or credited directly to capital.

In 1985, the Royal Bank's loan loss experience totalled \$685 million, a decline of \$57 million from 1984. As Table 7 illustrates, the improvement in loan loss experience was attributable to both Domestic and International Operations.

On the Domestic side, loan loss experience fell from \$380 million in 1984 to \$345 million in 1985. While losses in the large commercial and corporate sector accounted for the decline, they nonetheless remained stubbornly high, largely reflecting the sluggish recovery in the resource sector in western Canada.

At \$340 million, International loan loss experience was \$22 million lower than in 1984, in spite of an increase in the general provision for the Bank's lending to troubled country borrowers, especially those in the Latin America and Caribbean Area. This general provision is in addition to any specific provisions made for private sector borrowers in these countries. In view of the difficulties experienced by a number of countries in servicing their external financial obligations, the Bank began in 1983 to build up a general provision for its aggregate cross-border lending to such countries. The Bank intends to continue to add to the general provision in the periods ahead. The Bank believes that its approach to building up the general provision is similar to that of international banks in other jurisdictions and is consistent with the views of the regulatory authorities.

The provision for loan losses, which is the amount charged to income, was \$621 million in 1985, up \$86 million or 16% from the previous year. Although the Bank's loan loss experience declined for the second consecutive year, the provision for loan losses continued to climb, due to the effect of the five-year averaging formula. Thus, within Domestic Operations, the provision for loan losses rose by \$16 million to \$343 million and within International Operations by \$70 million to \$278 million, in each case due to the effects of the averaging formula.

Table 7

Detail of Loan Losses

(\$ Millions)

	1985	1984	1983	1982	1981
Loan Loss Experience					
Domestic					
Atlantic Provinces	\$ 6	\$ 2	\$ —	\$ 18	\$ 25
Quebec	22	18	48	54	27
Ontario	38	26	78	63	61
Manitoba	11	17	11	16	7
Saskatchewan	27	11	11	6	12
Alberta	152	202	229	257	16
British Columbia	89	104	74	118	6
	345	380	454	530	144
Of which:					
Consumer instalment, Visa, mortgages and other personal loans	49	48	92	77	43
Agriculture and independent business	99	84	104	84	37
Large commercial and corporate	197	248	258	369	64
	345	380	454	530	144
International (1)					
U.S.A.	83	169	174	75	14
Europe, Middle East and Africa	39	48	85	57	31
Latin America and Caribbean	198	123	43	18	27
Asia Pacific	20	22	14	—	3
	340	362	318	150	75
Total	\$685	\$742	\$772	\$680	\$219
Eligible Loans					
Domestic	\$46,184	\$45,476	\$44,726	\$47,178	\$41,632
International	22,850	21,281	20,529	20,904	19,222
Total	\$69,034	\$66,757	\$65,255	\$68,082	\$60,854
Loss Experience as a Per Cent of Eligible Loans					
Domestic	.75 ⁰⁰	.84 ⁰⁰	1.01	1.12	.35
International	1.49	1.70	1.55	.72	.85
Total	.99⁰⁰	1.17⁰⁰	1.18	1.00⁰⁰	.85
Provision for Loan Losses (five-year average)					
Domestic	\$343	\$327	\$309	\$258	\$155
International	278	208	145	86	75
Total	\$621	\$535	\$452	\$344	\$230

(1) Includes a general provision for country lending which has been allocated to the appropriate areas based on relative balances outstanding to problem countries.

Other Income

Other income consists of all sources of income other than interest and dividend income, and includes a variety of revenues from financial services offered such as Visa fees, service charges, foreign exchange revenue, and securities commissions. In recent years this source of revenue has taken on greater importance for the Bank as overall credit demand has remained relatively weak. In 1985, other income totalled \$819 million — surpassing by 15% the amount reported last year. Table 8 shows the principal components of other income in each of the past two years.

Service charge income rose 13% from 1984 to reach \$237 million. This increase reflects a greater number of deposit account transactions as well as selected price increases on particular services to cover the actual costs of providing them.

Visa fee income, which includes both merchant discount and card-user fees, increased 11% to \$109 million during 1985. Higher volume, a direct result of strong consumer spending, was responsible for the improvement registered in this category.

Loan and commitment fees rose 18% from 1984 to \$94 million, the increase largely attributable to Domestic Operations. Fees from loan reschedulings, in both the private and public sector, are generally deferred and amortized over the term of the loan.

Table 8

Other Income

(\$ Millions)	1985	1984	% Change
Service charges.....	\$237	\$210	12.9%
Visa fees.....	109	98	11.2
Loan and commitment fees	94	80	17.5
Securities commissions	51	38	34.2
Foreign exchange revenue	134	101	32.7
Bankers' acceptances, letters of credit and guarantee fees	72	69	4.3
Sundry	121	113	7.1
Total	\$818	\$709	15.4%

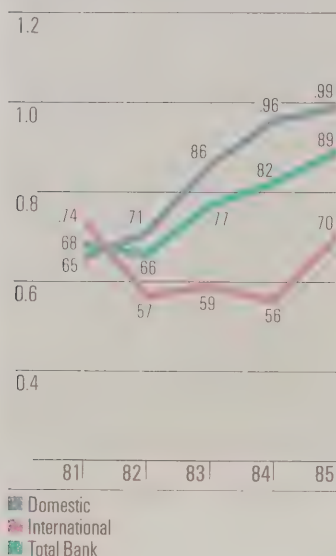
Securities commissions, which include commissions on the sale of Canada Savings Bonds, fees from the purchase and sale of stocks and bonds on behalf of clients, and underwriting revenues from merchant banking operations were \$51 million, 34% higher than in 1984.

Foreign exchange trading revenues rose 33% to \$134 million during 1985. Much of this improvement was due to our ability to effectively service a large client base while maintaining a dominant position as a market maker in global foreign exchange during a period of highly volatile rates. The Royal Bank is a world leader in generating earnings from foreign exchange transactions and intends to continue to build upon this important strength.

Fees on bankers' acceptances, letters of credit, and guarantees amounted to \$72 million, up slightly from last year's figure of \$69 million. As in the case of corporate borrowing, activity in this area remained sluggish.

Chart 9

Other Income
(% of Average Assets)



Non-Interest Expenses

Banking is both highly labour intensive and customer-service oriented. Salaries, wages and employee benefits alone account for nearly two-thirds of non-interest expenses. A major challenge for the Royal Bank has been to support new and sophisticated banking products while simultaneously responding to clients' expectations for highly personalized services.

The application of advanced technologies to financial services has long been a key part of the Royal Bank's strategy. The objective is to offer customers greater value than our competitors through a balanced combination of personal attention and automated support by the most cost effective means available.

In 1985, total staff costs increased by 7%, largely reflecting a revised compensation package for employees. Total full-time equivalent staff amounted to 41,951, up only 63 over 1984. As a result of higher business volumes and a broader, more sophisticated range of services, the number of full-time equivalent staff in Canada rose by 601 to 36,400. Most of the increase was due to a higher level of part-time staff. Employees outside of Canada totalled 5,551, a decrease of 538 from 1984. In part, the reduction in offshore operations was accomplished through the continuing rationalization of the international network.

The effect of substantial investments in fixed assets and in technology can be seen in premises and equipment expenses, which increased by 11% in 1985 to \$326 million. Depreciation and amortization expenses rose by 15% to \$98 million, due, in large measure, to higher depreciation on bank-owned computer equipment. Other computer-related facilities costs, mainly rent and maintenance, increased by 15% to \$63 million in the year just ended.

Other expenses, which includes a wide range of miscellaneous business costs, increased 9% in 1985 to \$442 million.

There are several ways of evaluating productivity. In addition to the ratio of non-interest expenses to average assets,

Table 9

Non-Interest Expenses (\$ Millions)			
	1985	1984	% Change
Salaries, pensions and other staff benefits			
	\$1,180	\$1,106	6.7%
Premises and equipment			
Building rent	98	95	3.2
Less: rental income from subleases	(45)	(47)	4.3
	53	48	10.4
Depreciation	98	85	15.3
Computer rental and maintenance	63	55	14.5
Property taxes	30	29	3.4
Other	82	77	6.5
	326	294	10.9
Other			
Stationery and printing	57	51	11.8
Telephone and telegraph	58	50	16.0
Business and other taxes	51	51	—
Travel and relocation	45	46	(2.2)
Postage and courier	45	43	4.7
Other	186	163	14.1
	442	404	9.4
Total	\$1,948	\$1,804	8.0%

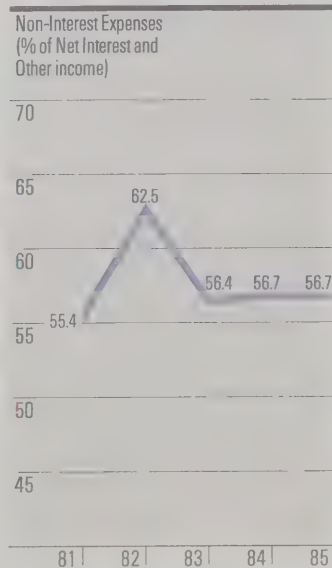
another measure of productivity is the ratio of non-interest expenses to net interest income and other income. Effectively, this figure represents what it costs the Bank to generate each dollar of revenue. As highlighted in Chart 11, this measure was unchanged in 1985.

The overall 8% growth in total non-interest expenses in 1985 (7% excluding the impact of exchange rates on expenses denominated in foreign currencies) was somewhat greater than expected at the beginning of the year. Nonetheless, expense control and productivity improvement remain key strategies which will be aggressively pursued in the periods ahead.

Chart 10



Chart 11



Income Taxes

In 1985, the Royal Bank reported a provision for income taxes of \$200 million, an increase of \$27 million from 1984.

Like other corporations in Canada, the Bank is subject to a combined federal and provincial income tax rate of approximately 50%. However, the effective tax rate of 29% shown on our 1985 statement of income may create the erroneous impression that the Bank is subject to a lower tax burden than other companies. In fact, the Royal Bank and other Canadian banks are subject to income taxes at normal statutory rates.

There are two important reasons for the Bank's relatively low published tax rate: the tax-exempt nature of "loan equivalent" securities and the lower rates of tax experienced by certain foreign subsidiaries. The Bank earns a substantial amount of tax-exempt income on its \$2.5 billion portfolio of "loan equivalents". These consist of small business bonds, income debentures, and term preferred shares on which the Bank accepts a lower but tax-exempt yield. This lower rate of interest enables the issuer to raise funds more cheaply but results in the Bank's financial statements recording interest income on which there is no related income tax.

Since the tax savings are largely passed on to the borrower in the form of reduced interest payments, the Bank is not a major beneficiary of the reduced taxes due to loan equivalents. For analytical purposes, a taxable equivalent adjustment, as discussed in the net interest income analysis of this report, is made to compensate for tax-exempt earnings. Were the reported tax expense adjusted to reflect this differential, the provision for income taxes shown in the Statement of Income would increase by \$175 million in 1985 and by \$221 million in 1984, and would appear as \$375 million for 1985 and \$394 million for 1984.

The Bank's lower published tax rate also reflects the fact that certain consolidated foreign subsidiaries are subject to lower rates of income taxes in their home countries than the approximate 50% tax rate applicable to the Royal Bank itself.

A reconciliation of the combined federal and provincial statutory income tax rates to the published income tax rates for 1985 and 1984 is provided in Note 2 to the Financial Statements on page 65.

Portfolio Risk Management

The events of the past year in Canada's banking system have underscored the fact that a bank's success and stability ultimately depend on its credit policies, including the degree of diversification of its loan portfolio. A bank must first and foremost be able to determine the soundness of each one of the lending proposals made to it. It then has to ensure that the loans it makes are sufficiently varied by industry and geography so as to spread the risk and avoid the potential of seriously impairing overall earnings because of adverse conditions or downturns in any single industry or region. It is the Royal Bank's usual policy to limit individual borrower loan authorizations to all but a select number of independent corporate borrowers to 15% and, in all cases, to not more than 25% of our shareholders' equity. At October 31, 1985, five borrowers had loan balances outstanding in excess of 15% of the Bank's shareholders' equity. Country and industry limits are also established taking into account economic, political, and social considerations as well as strategic objectives. These limits are monitored closely and reviewed frequently. The accompanying tables illustrate the degree of diversification of the Bank's assets.

Table 10 provides a breakdown of the Bank's earning assets and shows the geographic diversification of its loan portfolio. In addition, Domestic loans are categorized by industry or type of loan. As the Table illustrates, the Bank is a major participant in each Canadian geographic and industry market sector.

As a consequence of the broad global commercial activities of the Bank's clients in Canada and abroad, extensive financing activities are conducted outside Canada. The extension of credit to borrowers resident in foreign countries both facilitates the sale of Canadian goods and services abroad, and creates profit opportunities for the Bank.

Foreign lending entails, in addition to normal credit considerations, risks associated with adverse political or economic developments. The Bank monitors international lending closely and limits concentrations of credit by risk class, that is, on a country-by-country basis and according to economic classifications of country groups.

Table 10

Breakdown of Loans

As at September 30

\$ Millions)	1985	Per Cent	1984	Per Cent
Domestic				
Atlantic Provinces	\$ 2,794	6.2%	\$ 2,550	6.2%
Quebec	5,814	12.9	5,110	12.4
Ontario	15,211	33.8	12,892	31.3
Manitoba	2,252	5.0	2,069	5.0
Saskatchewan	3,030	6.7	2,723	6.6
Alberta	8,426	18.7	8,486	20.6
British Columbia	7,505	16.7	7,368	17.9
	45,032	100.0	41,198	100.0
Of which:				
Mortgages	10,495	23.3	8,940	21.7
Loans to individuals	9,245	20.5	8,280	20.1
Agricultural	2,317	5.1	2,219	5.4
Financial institutions	3,162	7.0	2,821	6.8
Merchandisers	2,886	6.4	2,797	6.8
Manufacturing	3,724	8.3	3,568	8.7
Construction	1,781	4.0	1,944	4.7
Mining and energy	3,762	8.4	3,979	9.7
Other	7,660	17.0	6,650	16.1
	45,032	100.0	41,198	100.0
International(1)				
Canadian Risk	899	4.7	1,202	6.5
U.S.A.	4,802	24.9	4,102	22.0
Europe, Middle East and Africa	5,437	28.3	5,227	28.1
Latin America and Caribbean	5,869	30.5	5,907	31.7
Asia Pacific	2,222	11.6	2,169	11.7
	19,229	100.0	18,607	100.0
Total Loans	64,261	73.6	59,805	74.0
Securities	8,819	10.1	6,867	8.5
Deposits with Other Banks	14,191	16.3	14,126	17.5
Total Earning Assets	\$87,271	100.0%	\$80,798	100.0%

(1) The general provision for country lending has been allocated to the appropriate areas based on relative balances outstanding to problem countries.

Table 11

Distribution of Earning Assets (1)
by Country Classification

As at September 30

(\$ Millions)	1985	Per Cent	1984	Per Cent
Industrialized countries	\$76,065	87.2%	\$69,339	85.8%
Centrally-planned countries	721	.8	627	.8
Oil-exporting countries	1,378	1.6	1,515	1.9
Developing countries:				
Low income	1,462	1.7	1,559	1.9
Upper middle income	3,751	4.3	3,659	4.5
Intermediate middle income	3,195	3.6	3,246	4.0
Lower middle income	446	.5	612	.8
Low income	253	.3	241	.3
Total	\$87,271	100.0%	\$80,798	100.0%

(1) Earning assets are defined as all assets except Cash and deposits with the Bank of Canada, Acceptances, Land, buildings and equipment and Other assets. The distribution is based on International Bank for Reconstruction and Development classification of per capita income. The general provision for country lending has been allocated to the appropriate categories based on relative balances outstanding to problem countries.

Table 11 illustrates the distribution of the Bank's international assets according to the development classification of the country of ultimate risk. The greatest proportion globally (87%) represents advances to borrowers in industrialized countries. The low income and lower middle income developing countries account for \$700 million or 0.8% of earning assets.

Further evidence of the Bank's diversification of international risk is provided in Table 12 which shows total earning assets by individual countries where the balances outstanding, including loans funded in local currencies, exceed one-half of one per cent of total earning assets. The United States is the only foreign country accounting for 5% or more of total earning assets.

It should be noted that during the year the Canadian dollar fell by 4% against the U.S. dollar and this resulted in higher translated balances for a number of countries, as the external debt is largely U.S. dollar-denominated.

In 1985, the international debt situation continued to be of concern. However, the trend towards lower and more stable interest rates, the implementation of several longer-term rescheduling agreements, and the progress made in reducing the current account deficits of a number of developing countries were welcome developments.

The following is a brief summary of the Bank's involvement with the major troubled borrowing nations in Latin America as well as a brief analysis of current economic conditions in those countries. In addition, a summary of recent developments in international bank debt rescheduling is provided.

Mexico: At September 30, 1985, the Royal Bank's exposure in Mexico totalled \$1.6 billion, or 1.8% of total assets. Of this amount, approximately \$78 million was classified as nonaccrual.

Weak oil prices and expansionary economic policies resulted in a moderate deterioration of Mexico's external accounts with the current account being close to balance in 1985. International reserves were a healthy U.S. \$13.2 billion in September. The external adjustment achieved by Mexico since the 1981 current account deficit of U.S. \$13.9 billion was exceptional and resulted from strict domestic austerity and a sizable contraction in real income. The authorities considered the continuation of strict austerity unsustainable through 1985. Mexico has completed a multi-year rescheduling with foreign creditor banks and has indicated its willingness to continue its co-operation with the International Monetary Fund. Mexico has also declared its intention to join the General Agreement on Tariffs and Trade.

Brazil: At September 30, 1985, the Bank's exposure in Brazil was \$1.4 billion, or 1.7% of the Bank's total assets, \$7 million of which was classified as nonaccrual.

Despite strong domestic growth — well in excess of 5% — Brazil maintained a sizable trade surplus in 1985. At an estimated U.S. \$12 billion, the surplus would be only U.S. \$1 billion below the record 1984 performance. The biggest challenge facing the government is the reduction of inflation, which hovered over 200% in 1985. Authorities are developing a package of monetary and fiscal measures targeted to lower the annual rate of inflation to 140% by the end of 1986.

Table 12

Distribution of Earning Assets (1)
by Location of Ultimate Risk
 As at September 30
 (\$ Millions)

	Total Earning Assets				Loans			
	1985	Per Cent	1984	Per Cent	1985	Per Cent	1984	Per Cent
Canada	\$53,950	61.8%	\$49,906	61.8%	\$45,931	71.5%	\$42,400	70.9%
United States	9,637	11.0	7,861	9.7	4,802	7.5	4,102	6.9
Europe, Middle East and Africa								
United Kingdom	4,309	4.9	3,992	4.9	1,882	2.9	1,394	2.3
France	943	1.1	1,377	1.7	173	.3	373	.6
West Germany	895	1.0	971	1.2	337	.5	375	.6
Belgium	851	1.0	688	.9	440	.7	362	.6
Switzerland	531	.6	525	.6	102	.2	61	.1
Italy	433	.5	442	.5	295	.5	288	.5
Other	3,314	3.8	1,142	1.2	2,208	3.4	1,111	1.8
	11,276	12.9	12,127	15.0	5,437	8.5	5,227	8.7
Latin America and Caribbean								
Mexico	1,603	1.8	1,460	1.8	1,560	2.4	1,413	2.4
Brazil	1,442	1.7	1,283	1.6	1,418	2.2	1,200	2.0
Venezuela	762	.9	760	.9	752	1.2	738	1.3
Bahamas	611	.7	561	.7	453	.7	475	.8
Argentina	455	.5	393	.5	429	.7	372	.6
Other	1,646	1.9	2,028	2.5	1,257	1.9	1,720	2.9
	6,519	7.5	6,480	8.0	5,869	9.1	5,907	9.9
Asia Pacific								
Japan	3,406	3.9	1,821	2.3	490	.8	273	.5
Australia	517	.6	434	.5	320	.5	296	.5
South Korea	445	.5	485	.6	396	.6	435	.7
Hong Kong	409	.5	50	.0	185	.3	149	.3
Other	1,112	1.3	1,181	1.5	831	1.2	966	1.6
	5,889	6.8	4,424	5.5	2,222	3.4	2,169	3.6
Total	\$87,271	100.0%	\$80,798	100.0%	\$64,261	100.0%	\$59,805	100.0%

(1) Earning assets are defined as all assets (including assets funded in local currencies) except Cash and deposits with Bank of Canada, Acceptances, Land, buildings and equipment and Other assets. Individual countries are indicated where assets exceed 1/2 of 1% of earning assets. The general provision for country lending has been allocated to the "Other" component within each area based on relative balances outstanding to problem countries.

Venezuela: At September 30, 1985, the Royal Bank's exposure in Venezuela totalled \$760 million, or 0.9% of total assets. Of this amount, \$121 million was classified as nonaccrual.

Despite an 11% decline in export revenues due to weaker oil prices, Venezuela's trade surplus is estimated at a considerable U.S. \$6 billion in 1985 and international reserves were a healthy U.S. \$10 billion in September. While the economy stagnated in 1985, inflation fell sharply to the 10% level from 18% in 1984. In addition to controlling inflation, the government is addressing the imbalances within the economy.

Argentina: At September 30, 1985, the Bank's exposure in Argentina amounted to roughly \$450 million or 0.5% of total assets, \$285 million of which was classified as nonaccrual.

The results of the far-reaching monetary reform and price and wage freeze introduced in June 1985 have been encouraging. The monthly rate of inflation fell to 1.9% in October from over 30% in early June. Budgetary revenue has increased and spending has been curbed. The budget deficit has fallen to 4% of gross national product from 12% in 1984. The 1986 budget, now being finalized, aims at continued fiscal discipline and low inflation.

Reschedulings: The most important development in the area of international bank debt restructuring since late 1984 has been the introduction of multi-year reschedulings aimed at "smoothing out" the profile of future scheduled payments. The profile of these payments for a number of countries was characterized by "humps" which would have required very high rates of refinancing in given years.

Argentina, Mexico, Venezuela, Ecuador, Panama, Chile, Yugoslavia and the Dominican Republic negotiated multi-year reschedulings in 1985. The Mexico agreement was concluded in August 1985, Argentina in September, Panama in October, and the others have either been signed or agreed to in principle.

Interest Rate Sensitivity and Liquidity Management

Interest Rate Sensitivity

Interest rate sensitivity is defined as the rapidity with which average yields on earning assets and average rates paid on interest-bearing liabilities respond to changes in prevailing rates of interest. Interest rate risk is introduced when assets and the liabilities used to fund them do not respond to interest rate changes concurrently. A key determinant of interest rate sensitivity is the repricing date — the timing of the next opportunity to adjust the interest rate to new market levels. Mismatches in repricing dates of assets and liabilities are frequently referred to as "interest rate gaps". A "positive" interest rate gap exists when assets are more interest rate sensitive than liabilities; a "negative" interest rate gap indicates the reverse.

When interest rates are falling, and liabilities are more interest rate sensitive than assets, the net interest margin will be enhanced for a period of time — for example, when a mortgage portfolio is funded by short-term deposits. This effect will continue until the mortgage repricing date is reached or interest rates on deposits reverse course. When prevailing rates of interest increase, and a negative gap position exists, the opposite occurs: the net interest margin is compressed.

If the situation is one in which assets, such as prime-rate loans, are more interest rate sensitive than liabilities (a positive gap position), the result is the reverse of the situation described above; that is, reductions in interest rates compress margins, while rising interest rates increase margins.

In all cases the extent to which the net interest margin is affected will depend upon the degree and rapidity of change in interest rate levels, the size of the cumulative gap positions and the maturity terms at which the gap positions exist.

Unfavourable interest rate movements, in a situation where cumulative gap positions exist only at shorter terms, will have a less adverse impact on spread than if the cumulative positions existed at longer maturities.

Management of repricing schedules of loans and deposits is a highly important determinant of bank profitability. To the extent that the repricing profiles of loans and deposits are matched, the exposure of net interest income to interest rate risk is reduced. A fully-matched position, while eliminating interest rate risk, also limits profit potential. Opportunities for enhanced returns arising from mismatched positions and favourable interest rate movements are constantly weighed against the costs that could arise from unfavourable interest rate changes. Interest rate sensitivity positions are managed to enhance profitability, to respect liquidity policy guidelines governing expected net cash outflows or, at times, to meet fixed-rate lending competition.

At the Royal Bank, the management of interest rate sensitivity and liquidity positions world-wide, including those in currencies other than Canadian, is a specific responsibility of the Treasury and Money Markets Division. Certain activities are conducted through units based in major financial centres around the world, but are co-ordinated and controlled by Head Office.

In International Operations, the Bank closely manages the projected net cash flows to control the adequacy of liquidity in all major market areas. Liquidity considerations take priority over interest rate exposure factors and sometimes, as a result, forced gap positions of modest size do result. However, interest rate gaps caused by liquidity considerations in the Bank's foreign currency business typically are not significant.

Chart 12

Interest Rate Sensitivity
(as a Percentage of Total Assets)
as at October 31, 1985



The Bank's interest rate sensitivity position as at October 31, 1985 is highlighted in Chart 12. We have identified the portfolio mismatch at the one-month, three-month, six-month, nine-month and one-year time horizons. The figures which indicate the extent to which earnings are affected by interest rate changes are the cumulative gap positions. They represent the sum of all gap figures at or before the repricing date shown. As is apparent, interest rate gaps of significance are confined primarily to the shorter-term maturities. At the one-year point, the Bank has a cumulative positive gap position of less than 4% of total assets.

We urge that these figures be viewed with caution since they indicate a position at only one point in time, and significant changes in positions can and are made quickly depending upon client demands and the Bank's view of future interest rate movements.

Liquidity Management

The main focus of Liquidity Management is to ensure the continuing ability to meet deposit withdrawals and borrowing maturities, and to satisfy customers' world-wide requirements for credit in a timely manner.

Liquidity is maintained through close co-ordination of asset and liability management bank-wide. A cornerstone of the Bank's liquidity management policy is the maintenance of a highly diversified deposit base. Note 8 to the Financial Statements on page 67 provides a detailed breakdown of the Bank's total deposits and, in particular, indicates the extent of the Bank's "core" deposits in the "payable after notice" classification and other deposits by individuals. Other major elements of the Bank's overall liquidity management capabilities are: close management of loan and deposit maturity structures; policy limits which govern the maximum net outflow of funds which could occur in the near future; and access to liquid asset resources and committed credit lines.

In Canada, the Bank currently maintains \$1.3 billion of primary reserves, including cash and deposits, with the Bank of Canada, and an additional \$1.4 billion of secondary reserves invested in short-term Government of Canada securities as required by law. In addition to these statutory liquidity reserves, the Bank, under established internal policies, maintains supplementary reserves in the form of very liquid assets which amounted to \$1.8 billion at October 31, 1985. The Bank also has access to the Bank of Canada, which functions as lender of last resort to the Canadian banking system.

Internationally, the cornerstones of liquidity management are: diversification of world-wide funding sources; close control of the maturity profiles of loan and deposit portfolios; policy limits governing net cash outflow; and supplementary reserves of very liquid foreign assets. As a major participant in the Eurodollar market, the Bank also has access to deposits from other large international banks and, in turn, places deposits with other banks to manage cash flows.

In 1985, the Bank continued to follow conservative liquidity management policies. Domestically, this was reflected in the previously noted levels of supplementary liquidity reserves while internationally, year-end interbank redeposits of \$12.5 billion represented 29% of foreign currency assets.

Capital Funds Management

Capital Funds include common and preferred shareholders' equity, appropriations for contingencies, and subordinated debentures. In its broadest sense, the role of capital is to maintain the full confidence of depositors, creditors and shareholders in the integrity and stability of the Bank. An adequate capital base is viewed as an important component of the Bank's capacity to absorb any unforeseen and unusually severe setbacks which might otherwise impair its ability to continue operating as a going concern. Capital also provides the funds needed to acquire fixed assets, such as branch facilities and computer equipment which are necessary to conduct the business of banking. Finally, growth in capital funds is a prerequisite to the continuing expansion of credit and other banking services.

A primary objective of management is to provide the common shareholders with a competitive return on investment. Supplementing the common shareholders' investment with long-term debt and preferred shares is an effective means of helping to achieve this goal. Capital funds management involves balancing the long-term safety and growth needs of the Bank with the return-on-investment expectations of shareholders.

Total capital funds rose by 17% and amounted to \$5.9 billion at year end. During the year, the Bank issued U.S. \$350 million (approximately CAN. \$479 million) of subordinated floating rate debentures due in the year 2005. An additional \$192 million was raised in common equity through the Shareholder Dividend and Share Purchase Plan.

Table 13

Change in Capital Funds

For the year ended October 31

(\$ Millions)

	1985	1984	1983	1982	1981
Net income	\$488	\$450	\$480	\$358	\$478
Excess of loss experience on loans over provision for loan losses	(64)	(207)	(320)	(336)	(33)
Income tax credit on transfer to appropriations for contingencies	82	91	86	94	36
Other	(4)	(12)	—	21	—
Less dividends	(268)	(247)	(218)	(201)	(148)
Internally generated capital	234	75	28	(64)	333
External sources of capital					
Common shares	192	142	96	43	62
Preferred shares	—	226	292	203	151
Debentures	414	216	(2)	342	185
Total external sources of capital	606	584	386	588	398
Total increase in capital	\$840	\$659	\$414	\$524	\$731

Table 13 presents the changes in capital funds for the past five years and shows that there has been significant improvement in the level of internally-generated capital. The reduction in capital caused by the excess of loan loss experience over the provision for loan losses was again substantially less than in the prior year. While total dividends were higher, largely due to the greater number of common shares outstanding, the year's internally-generated capital, at \$234 million, was three times greater than last year's amount. The Bank expects this important component of capital growth to show continued improvement.

Table 14 presents the Bank's base capital, base capital equivalent, and adjusted total capital ratios, utilizing guidelines developed by the Office of the Inspector General of Banks. Base capital (formerly called primary capital) includes those

elements of capital funds which are permanent, subordinate to other creditors and are free of mandatory fixed charges against earnings. Supplementary capital (formerly called secondary capital) includes those instruments such as debentures and redeemable preferred shares which, although subordinate to the rights of depositors, do not have all of the required properties of base capital. As is evident in the Table, the Bank's capital position continued to improve in 1985. The base capital to gross assets ratio rose from 3.6% in 1984 to 3.7%, while the adjusted total capital (base plus supplementary capital) ratio increased from 5.0% in 1984 to 5.3% in 1985. During the year the Inspector General of Banks introduced a new measure of capital called base capital equivalent, which is defined as base capital plus one-third of supplementary capital. The Royal's base capital equivalent ratio of 4.2% at year end was improved over the 4.0% in 1984.

Chart 13

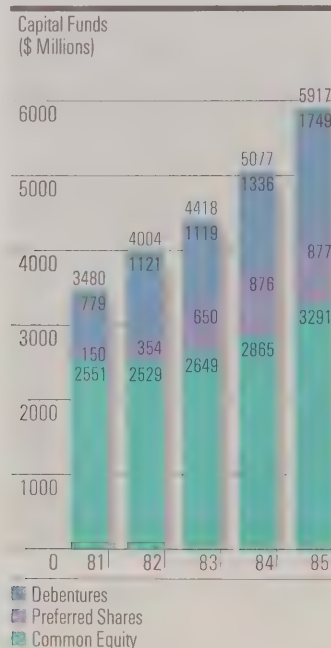


Table 14

Capital Ratios

As at October 31

(\$ Millions)	1985	1984	1983	1982	1981
Total assets	\$ 96,017	\$88,003	\$84,682	\$88,456	\$85,359
Letters of credit and guarantees	4,808	4,400	3,595	3,421	3,409
Less investment in associated corporations (20%-50% owned)	(154)	(110)	(95)	(83)	(75)
Gross assets	\$100,671	\$92,293	\$88,182	\$91,794	\$88,693
Base capital					
Common shareholders' equity	\$ 3,190	\$ 2,763	\$ 2,549	\$ 2,428	\$ 2,293
Permanent preferred shares	537	531	300		
Appropriations for contingencies	101	103	100	101	258
Less investment in associated corporations (20%-50% owned)	(154)	(110)	(95)	(83)	(75)
Minority interests	9	8	5	2	6
Total base capital	3,683	3,295	2,859	2,448	2,482
Supplementary capital					
Other preferred shares (1)	256	345	350	354	150
Bank debentures (1)	1,411	1,011	856	950	559
Total supplementary capital	1,667	1,356	1,206	1,304	709
Adjusted total capital (base & supplementary)	\$ 5,350	\$ 4,651	\$ 4,065	\$ 3,752	\$ 3,191
Base capital to gross assets	3.7%	3.6%	3.2%	2.7%	2.8%
Adjusted total capital to gross assets	5.3%	5.0%	4.6%	4.1%	3.6%
Base capital equivalent to gross assets (2)	4.2%	4.0%	3.7%	3.2%	3.1%

(1) Securities which are within five years of maturity are subject to straight line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.

(2) Base capital equivalent is equal to the sum of base capital and one-third of supplementary capital.

Over the past few years regulators, investors and others have focused special attention on the adequacy of a bank's capital base. While the ratios reported in Table 14 are a useful indicator of the progress made in raising overall capital levels, we believe that ratios alone do not allow a complete assessment of this subject. More important and perhaps less quantifiable measures of a bank's stability are its management capability, the stability of funding sources, the diversity of loan portfolios and earnings streams, and market position — all of which are significant strengths of the Royal Bank.

An important aspect of the Royal Bank's stability is its broad base of deposits by individuals which, as reported elsewhere in this report, totalled \$39.0 billion at October 31, 1985. This core consumer deposit base permits minimal dependence on more volatile funding sources.

Capital ratios are also affected by the relative liquidity positions of individual banks. While the high levels of liquidity that are maintained by the Bank have the effect of reducing reported capital ratios, it should be appreciated that such balances greatly increase the Bank's flexibility — and thus its stability — during periods of unsettled financial markets.

All things considered, the Bank has a very sound capital position which compares favourably with that of its domestic and international competitors, and will continue to build on this base in the periods ahead.

Readers are advised to exercise care in making direct comparisons of Canadian capital ratios with those reported by banks in other countries. There are important definitional differences which may make such comparisons inappropriate. For example, the primary capital base for U.S. banks, as defined by regulators in that country, includes the allowance for loan losses. In Canada, such amounts are deducted from loan balances outstanding and are not included in the definition of base capital. Similarly, unlike the Canadian practice, U.S. banks do not include off-balance sheet commitments such as letters of credit and guarantees in the determination of their capital ratios, nor do they reduce primary capital for investments in equity-accounted associated corporations. Generally, Canadian capital ratios are based upon definitions that include broader groups of assets and more restrictive definitions of capital than those used by many foreign regulators.

Consolidated Statement of Income

For the Year Ended October 31

(\$ Thousands)	1985	1984	1983	1982	1981	1980	1979	1978	1977
Interest Income									
Loans	\$6,985,559	\$6,967,533	\$7,008,683	\$9,360,648	\$8,193,495	\$5,006,165	\$3,649,193	\$2,532,891	\$2,071,257
Lease financing	64,012	64,572	71,093	75,426	41,316	33,778	22,069	21,089	9,387
Securities	770,747	718,337	663,882	788,414	776,790	613,836	501,004	320,344	244,808
Deposits with banks	1,371,002	1,267,152	1,138,627	1,860,323	1,738,799	1,114,410	640,722	364,927	262,181
	9,191,320	9,017,594	8,882,285	12,084,811	10,750,400	6,768,189	4,812,988	3,239,251	2,587,633
Interest Expense									
Deposits	6,563,649	6,605,067	6,513,404	10,150,744	8,952,226	5,350,810	3,601,352	2,095,151	1,626,124
Bank debentures	147,623	120,217	126,699	128,506	71,659	49,476	44,894	33,764	27,933
Other	39,133	38,610	39,318	40,293	14,780	9,739	4,857	4,628	5,072
	6,750,405	6,763,894	6,679,421	10,319,543	9,038,665	5,410,025	3,651,103	2,133,543	1,659,129
Net Interest Income	2,440,915	2,253,700	2,202,864	1,765,268	1,711,735	1,358,164	1,161,885	1,105,708	928,504
Provision for loan losses	621,000	535,000	452,000	344,000	185,601	124,430	106,021	96,544	83,710
Net Interest Income After									
Provision for Loan Losses	1,819,915	1,718,700	1,750,864	1,421,268	1,526,134	1,233,734	1,055,864	1,009,164	844,794
Other income	818,541	708,792	667,037	582,874	500,410	377,647	321,292	270,480	244,747
Net Interest and									
Other Income	2,638,456	2,427,492	2,417,901	2,004,142	2,026,544	1,611,381	1,377,156	1,279,644	1,089,541
Non-Interest Expenses									
Salaries	1,076,166	1,014,353	976,905	944,545	783,894	664,310	575,217	493,650	443,714
Pension and other staff									
benefits	104,498	91,546	98,129	91,516	78,668	73,783	64,780	54,059	49,055
Premises and equipment,									
including depreciation	325,676	293,954	273,264	255,852	203,029	176,886	157,975	151,387	132,747
Other	441,831	405,659	397,459	381,961	318,425	274,650	212,963	180,492	159,562
	1,948,171	1,803,512	1,745,757	1,673,874	1,384,016	1,189,629	1,010,935	879,588	785,078
Net Income Before									
Income Taxes	690,285	623,980	672,144	330,268	642,528	421,752	366,221	400,056	304,463
Income taxes	200,000	173,000	191,000	(28,000)	160,219	60,876	60,557	135,651	114,289
Net Income Before									
Minority Interests	490,285	450,980	481,144	358,268	482,309	360,876	305,664	264,405	190,174
Minority interests									
in subsidiaries	2,180	895	1,151	620	4,133	12,844	15,973	3,300	2,218
Net Income	\$ 488,105	\$ 450,085	\$ 479,993	\$ 357,648	\$ 478,176	\$ 348,032	\$ 289,691	\$ 261,105	\$ 187,956
Income Per Share									
Basic	\$4.28	\$4.25	\$5.03	\$3.87	\$5.75	\$4.74	\$3.96	\$3.57	\$2.57
Fully diluted	\$3.91	\$3.87	\$4.58	\$3.68	\$5.71	\$4.74	\$3.96	\$3.57	\$2.57

Consolidated Statement of Assets and Liabilities

As at October 31

(\$ Thousands)

	1985	1984	1983	1982	1981	1980	1979	1978	1977
Assets									
Cash resources	\$14,992,013	\$15,648,210	\$13,001,831	\$15,018,402	\$15,851,527	\$11,141,883	\$ 9,752,064	\$ 7,463,315	\$ 6,565,099
Securities	10,490,229	7,483,882	7,356,747	6,794,565	7,346,426	6,567,092	6,103,886	4,674,358	3,478,874
Loans	63,830,803	59,014,248	58,066,890	60,284,459	57,131,133	40,805,248	32,713,333	26,977,407	23,066,315
Customers' liability under acceptances	4,137,263	3,332,313	3,928,158	3,471,826	2,414,937	1,451,068	934,171	498,963	365,019
Land, buildings and equipment	1,028,192	946,847	915,205	861,271	810,266	732,806	621,170	543,774	478,413
Other assets	1,538,363	1,577,208	1,412,992	2,025,469	1,805,163	784,014	550,963	445,237	321,439
Total Assets	\$96,016,863	\$88,002,708	\$84,681,823	\$88,455,992	\$85,359,452	\$61,482,111	\$50,675,587	\$40,603,054	\$34,275,159
Liabilities									
Deposits									
Payable on demand	\$ 7,638,391	\$ 6,908,522	\$ 7,985,266	\$ 6,958,361	\$ 7,048,266	\$ 7,174,200	\$ 6,044,284	\$ 6,241,106	\$ 5,183,165
Payable after notice	22,471,630	19,021,503	18,102,661	16,115,476	13,753,780	11,694,397	9,522,866	8,291,186	7,579,935
Payable on a fixed date	53,432,948	51,658,320	48,301,281	55,331,625	56,063,342	36,964,587	31,007,746	23,032,064	19,111,274
	83,542,969	77,588,345	74,389,208	78,405,462	76,865,388	55,833,184	46,574,896	37,564,356	31,874,374
Other liabilities									
Acceptances	4,137,263	3,332,313	3,928,158	3,471,826	2,414,937	1,451,068	934,171	498,963	365,019
Other	2,410,998	1,996,828	1,941,393	2,571,863	2,592,699	1,272,168	729,668	624,812	434,227
Minority interests in subsidiaries	8,528	8,110	4,786	2,249	6,305	176,230	164,656	14,607	8,887
	6,556,789	5,337,251	5,874,337	6,045,938	5,013,941	2,899,466	1,828,495	1,138,382	808,133
Subordinated debt									
Bank debentures	1,749,254	1,335,877	1,119,413	1,121,212	779,325	594,226	519,559	413,666	353,891
Capital and reserves									
Appropriations for contingencies	100,712	102,712	100,197	100,894	257,800	213,180	212,163	129,914	64,270
Shareholders' equity									
Capital stock - preferred	876,868	876,068	649,820	354,038	150,285	—	—	—	—
- common	962,141	770,683	629,152	84,833	82,843	80,243	73,181	73,181	73,181
Contributed surplus	—	—	—	451,965	407,872	348,125	192,762	192,762	192,762
Retained earnings	2,228,130	1,991,772	1,919,696	1,891,650	1,801,998	1,513,687	1,274,531	1,090,793	908,548
	4,167,851	3,741,235	3,298,865	2,883,380	2,700,798	2,155,235	1,752,637	1,486,650	1,238,761
Total Liabilities, Capital and Reserves	\$96,016,863	\$88,002,708	\$84,681,823	\$88,455,992	\$85,359,452	\$61,482,111	\$50,675,587	\$40,603,054	\$34,275,159

Net Interest Income on Average Assets and Liabilities
(\$ Millions)

	1985			1984		
	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Assets						
Earning Assets						
Deposits with other banks	\$14,607	\$1,371	9.39%	\$13,182	\$1,267	9.61%
Securities						
Issued or guaranteed by Canada and Provinces	2,791	252	9.03	2,873	317	11.03
Other	5,468	694	12.69	4,402	622	14.13
	8,259	946	11.45	7,275	939	12.91
Loans						
Mortgages	10,061	1,217	12.10	8,866	1,064	12.00
Other loans	5,385	774	14.37	4,860	720	14.81
Other loans in Canadian currency	23,450	2,640	11.26	22,437	2,663	11.87
Other loans in foreign currencies	22,820	2,418	10.60	22,637	2,586	11.42
	61,716	7,049	11.42	58,800	7,033	11.96
Total earning assets	84,582	9,366	11.07	79,257	9,239	11.66
Other Assets	7,720			7,405		
Total Assets	\$92,302	\$9,366	10.14%	\$86,662	\$9,239	10.66%
Liabilities						
Interest-Bearing Liabilities						
Deposits						
Demand deposits	\$ 4,992	\$ 98	1.96%	\$ 5,661	\$ 138	2.44%
Deposits by banks	20,223	1,898	9.39	19,804	1,977	9.98
Term deposits in Canadian currency	15,714	1,581	10.06	15,450	1,526	9.88
Other deposits in Canadian currency	19,087	1,205	6.31	16,502	1,113	6.74
Term deposits in foreign currencies	18,322	1,676	9.15	16,592	1,726	10.40
Other deposits in foreign currencies	2,476	105	4.24	2,407	125	5.19
	80,814	6,563	8.12	76,416	6,605	8.64
Liabilities of subsidiaries other than deposits	347	39	11.24	342	39	11.40
Bank debentures	1,429	148	10.36	1,115	120	10.76
Total interest-bearing liabilities	82,590	6,750	8.17	77,873	6,764	8.69
Other Liabilities	5,748			5,260		
Capital and Reserves	3,964			3,529		
Total Liabilities	\$92,302	\$6,750	7.31%	\$86,662	\$6,764	7.80%
Total Assets, Net Interest Income	\$92,302	\$2,616	2.83%	\$86,662	\$2,475	2.86%

1983			1982			1981		
Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
\$12,126	\$1,138	9.38%	\$13,765	\$1,860	13.51%	\$11,794	\$1,739	14.74%
2,673	302	11.30	2,236	316	14.13	2,613	386	14.77
4,551	587	12.90	4,590	805	17.54	4,008	677	16.89
7,224	889	12.31	6,826	1,121	16.42	6,621	1,063	16.05
7,806	1,013	12.98	7,288	921	12.64	7,559	927	12.26
4,396	701	15.95	4,636	812	17.52	4,252	655	15.40
24,190	2,781	11.50	25,223	4,225	16.75	20,877	3,745	18.90
22,642	2,585	11.42	22,330	3,478	15.58	16,072	2,708	16.85
59,034	7,080	11.99	59,477	9,436	15.86	48,760	8,235	16.89
78,384	9,107	11.62	80,068	12,417	15.51	67,175	11,037	16.43
8,309			8,464			6,313		
\$86,693	\$9,107	10.50%	\$88,532	\$12,417	14.03%	\$73,488	\$11,037	15.02%
\$6,028	\$154	2.55%	\$5,973	\$253	4.24%	\$5,778	\$229	3.96%
19,605	1,984	10.12	21,306	2,976	13.97	16,348	2,518	15.40
16,872	1,725	10.22	19,486	2,916	14.96	16,759	2,501	14.92
15,479	1,025	6.62	13,421	1,555	11.59	11,896	1,541	12.95
15,950	1,542	9.67	16,437	2,346	14.27	12,928	2,037	15.76
2,304	83	3.60	1,920	105	5.47	2,889	126	4.36
76,238	6,513	8.54	78,543	10,151	12.92	66,598	8,952	13.44
340	39	11.47	312	40	12.82	163	15	9.20
1,121	127	11.33	1,054	129	12.24	657	72	10.96
77,699	6,679	8.60	79,909	10,320	12.91	67,418	9,039	13.41
5,923			5,745			3,601		
3,071			2,878			2,469		
\$86,693	\$6,679	7.70%	\$88,532	\$10,320	11.66%	\$73,488	\$9,039	12.30%
\$86,693	\$2,428	2.80%	\$88,532	\$2,097	2.37%	\$73,488	\$1,998	2.72%

Domestic Highlights — Quarterly
(as a per cent of average assets)

	1985				1984			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (taxable equivalent basis)	3.28%	3.31%	3.24%	3.27%	3.34%	3.39%	3.55%	3.64%
Provision for loan losses	.54	.54	.63	.64	.60	.58	.59	.59
Other income	2.74	2.77	2.61	2.63	2.74	2.81	2.96	3.05
Non-interest expenses	1.04	.99	.97	.99	.99	.96	.93	.95
Income taxes (including taxable equivalent adjustment)	3.78	3.76	3.58	3.62	3.73	3.77	3.89	4.00
Return on assets	2.57	2.66	2.63	2.56	2.62	2.54	2.54	2.57
Net income (\$ millions)	1.21	1.10	.95	1.06	1.11	1.23	1.35	1.43
Average assets (\$ billions)	.58	.54	.44	.51	.56	.61	.66	.70
Net income (\$ millions)	.63%	.56%	.51%	.55%	.55%	.62%	.69%	.73%
Average assets (\$ billions)	\$ 97	\$ 85	\$ 72	\$ 77	\$ 77	\$ 89	\$ 93	\$ 100
Average assets (\$ billions)	\$61.3	\$59.4	\$57.8	\$56.2	\$55.8	\$56.5	\$54.7	\$54.4

International Highlights — Quarterly
(as a per cent of average assets)

	1985				1984			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (taxable equivalent basis)	2.17%	2.13%	1.82%	2.15%	1.78%	1.60%	1.65%	1.92%
Provision for loan losses	.91	.84	.80	.77	.60	.67	.68	.71
Other income	1.26	1.29	1.02	1.38	1.18	.93	.97	1.21
Non-interest expenses	.82	.74	.57	.66	.57	.49	.57	.63
Income taxes (including taxable equivalent adjustment)	2.08	2.03	1.59	2.04	1.75	1.42	1.54	1.84
Return on assets	1.51	1.25	1.16	1.09	1.27	1.15	1.22	1.18
Net income (\$ millions)	.57	.78	.43	.95	.48	.27	.32	.66
Average assets (\$ billions)	.15	.24	.09	.37	.12	.09	.08	.28
Net income (\$ millions)	.42%	.54%	.34%	.58%	.36%	.18%	.24%	.38%
Average assets (\$ billions)	\$ 35	\$ 45	\$ 28	\$ 49	\$ 29	\$ 14	\$ 19	\$ 29
Average assets (\$ billions)	\$32.8	\$33.4	\$34.4	\$33.3	\$32.2	\$31.8	\$31.0	\$29.8

Total Bank Highlights — Quarterly
(as a per cent of average assets)

	1985				1984			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (taxable equivalent basis)	2.89%	2.89%	2.71%	2.85%	2.77%	2.74%	2.86%	3.03%
Provision for loan losses	.67	.64	.70	.69	.60	.61	.62	.63
Other income	2.22	2.25	2.01	2.16	2.17	2.13	2.24	2.40
Non-interest expenses	.96	.90	.82	.87	.84	.79	.80	.84
Income taxes (including taxable equivalent adjustment)	3.18	3.15	2.83	3.03	3.01	2.92	3.04	3.24
Return on assets	2.20	2.16	2.08	2.01	2.13	2.04	2.06	2.08
Net income (\$ millions)	.98	.99	.75	1.02	.88	.88	.98	1.16
Average assets (\$ billions)	.42	.44	.30	.46	.40	.42	.45	.55
Net income (\$ millions)	.56%	.55%	.45%	.56%	.48%	.46%	.53%	.61%
Average assets (\$ billions)	\$ 132	\$ 130	\$ 100	\$ 126	\$ 106	\$ 103	\$ 112	\$ 129
Average assets (\$ billions)	\$94.1	\$92.8	\$92.2	\$89.5	\$88.0	\$88.3	\$85.7	\$84.2
Earnings per Share — Basic	\$1.16	\$1.14	\$0.85	\$1.13	\$0.95	\$0.93	\$1.07	\$1.30
— Fully diluted	\$1.04	\$1.04	\$0.80	\$1.03	\$0.88	\$0.87	\$0.98	\$1.14
Dividends per Share	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50

Selected Statistical Data

Nine-Year Analytical Review

	1985	1984	1983	1982	1981	1980	1979	1978	1977
Revenue and Expenses as a Per Cent of Average Total Assets									
Average total assets (\$ millions)	\$92,300	\$86,700	\$86,700	\$88,500	\$73,500	\$56,300	\$46,200	\$37,300	\$31,700
Net interest income									
(taxable equivalent basis) (1)	2.83%	2.86%	2.80%	2.37%	2.72%	2.82%	2.95%	3.14%	3.04%
Provision for loan losses	.67	.62	.52	.39	.25	.22	.23	.26	.26
	2.16	2.24	2.28	1.98	2.47	2.60	2.72	2.88	2.78
Other income	.89	.82	.77	.66	.68	.67	.70	.72	.77
	3.05	3.06	3.05	2.64	3.15	3.27	3.42	3.60	3.55
Non-interest expenses	2.11	2.08	2.01	1.89	1.88	2.11	2.19	2.36	2.47
	.94	.98	1.04	.75	1.27	1.16	1.23	1.24	1.08
Income taxes (including taxable equivalent adjustment)	.41	.46	.49	.35	.61	.52	.56	.53	.48
Minority interests	—	—	—	—	.01	.02	.04	.01	.01
Return on assets	.53%	.52%	.55%	.40%	.65%	.62%	.63%	.70%	.59%
Share Information: (2)									
Shares outstanding (thousands) (3)	97,322	90,840	86,769	83,830	81,710	73,402	73,180	73,180	73,180
Earnings per share - Basic	\$4.28	\$4.25	\$5.03	\$3.87	\$5.75	\$4.74	\$3.96	\$3.57	\$2.57
- Fully diluted	\$3.91	\$3.87	\$4.58	\$3.68	\$5.71	\$4.74	\$3.96	\$3.57	\$2.57
Dividends	\$2.00	\$2.00	\$2.00	\$2.00	\$1.70	\$1.26	\$1.09	\$0.78	\$0.69
Common Share price (4) High	\$32.38	\$35.38	\$36.00	\$27.50	\$32.25	\$27.75	\$23.38	\$19.00	\$14.31
Low	\$27.50	\$24.88	\$23.50	\$18.00	\$24.13	\$17.94	\$16.88	\$12.19	\$11.38
Close	\$31.50	\$28.38	\$31.75	\$23.50	\$25.75	\$26.75	\$18.69	\$17.50	\$12.38
Book value (5)	\$33.10	\$30.85	\$30.05	\$29.82	\$30.79	\$26.86	\$23.95	\$20.31	\$16.93
Price/earnings ratio (6)	7.0	7.1	5.9	5.9	4.9	4.8	5.1	4.4	5.0
Dividend yield (7)	6.4%	6.6%	6.7%	8.8%	6.0%	5.5%	5.4%	5.0%	5.4%

Other Information:

Return on equity (8)	13.5%	13.8%	16.8%	12.7%	20.0%	17.8%	17.9%	19.2%	16.1%
Number of shareholders (9)	89,947	79,085	62,332	51,159	47,587	38,463	32,058	31,503	32,276
Number of employees (10)	37,430	38,189	38,687	39,757	38,953	37,034	36,507	35,660	35,335
Number of branches	1,494	1,510	1,536	1,568	1,574	1,592	1,604	1,600	1,595

Notes to Selected Statistical Data:

(1) These figures have been adjusted to a taxable equivalent basis to recognize income from tax-exempt sources of the following amounts:

(\$ Millions)

1977	36
1978	66
1979	198
1980	230
1981	287
1982	331
1983	225
1984	221
1985	175

(2) RBC common stock was split 2 for 1 in March 1981 and all earlier figures have been adjusted accordingly.

(3) Weighted daily average of equivalent fully-paid common shares outstanding.

(4) High and low price of common shares traded on the Toronto Stock Exchange during the fiscal year and the closing price on the last trading day of October.

(5) Common shareholders' equity plus appropriations for contingencies divided by common shares outstanding at October 31.

(6) Average of high and low common share price divided by earnings per share.

(7) Dividends per common share divided by the average of high and low share price.

(8) Net income after taxes less preferred share dividends divided by average of monthly common shareholders' equity plus appropriations for contingencies.

(9) Total common shareholders at October 31.

(10) Full time staff on October 31.

Management's Responsibility for Financial Reporting

These financial statements were prepared by the management of The Royal Bank of Canada. While the form of the financial statements and the accounting policies to be followed are stipulated in the Bank Act and related rules issued by the Inspector General of Banks, many amounts must of necessity be based on the best estimates and judgments of management.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, written policies and procedures manuals, a written corporate code of conduct and accountability for performance within appropriate and well defined areas of responsibility.

The system of internal controls is further supported by an inspection staff which conducts periodic inspections of all aspects of the Bank's operations. In addition, the Bank's Chief Inspector has full and free access to the Audit Committee of the Board of Directors which oversees management's responsibilities for financial reporting. The Audit Committee is composed entirely of directors who are neither officers nor employees of the Bank.

The Inspector General of Banks, at least once a year, makes such examination and enquiry into the affairs of the Bank as he feels necessary to satisfy himself that the provisions of the Bank Act, having reference to the safety of the depositors and shareholders of the Bank, are being duly observed and that the Bank is in a sound financial condition.

Touche Ross & Co. and Price Waterhouse, the independent auditors appointed by the shareholders of the Bank, have examined our financial statements in accordance with generally accepted auditing standards and their report follows. The shareholders' auditors have full and free access to the Audit Committee to discuss their audit and their findings as to the integrity of the Bank's financial reporting and the adequacy of the system of internal controls.

Rowland C. Frazee
Chairman and
Chief Executive Officer

Allan R. Taylor
President and
Chief Operating Officer

Auditors' Report

To the Shareholders, The Royal Bank of Canada

We have examined the consolidated statement of assets and liabilities of The Royal Bank of Canada as at October 31, 1985 and the consolidated statements of income, appropriations for contingencies and changes in shareholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Bank as at

October 31, 1985 and the results of its operations for the year then ended in accordance with accounting principles prescribed by the Bank Act applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Price Waterhouse
Chartered Accountants

Montreal, December 2, 1985

Consolidated Statement of Income

(in thousands of dollars)	Year Ended October 31, 1985	Year Ended October 31, 1984
Interest Income		
Loans	\$6,985,559	\$6,967,533
Lease financing	64,012	64,572
Securities	770,747	718,337
Deposits with banks	1,371,002	1,267,152
	9,191,320	9,017,594
Interest Expense		
Deposits	6,563,649	6,605,067
Bank debentures	147,623	120,217
Other	39,133	38,610
	6,750,405	6,763,894
Net Interest Income	2,440,915	2,253,700
Provision for loan losses	621,000	535,000
Net Interest Income After Provision for Loan Losses	1,819,915	1,718,700
Other income	818,541	708,792
Net Interest and Other Income	2,638,456	2,427,492
Non-Interest Expenses		
Salaries	1,076,166	1,014,353
Pension and other staff benefits	104,498	91,546
Premises and equipment, including depreciation	325,676	293,954
Other	441,831	403,659
	1,948,171	1,803,512
Net Income Before Income Taxes	690,285	623,980
Income taxes (note 2)	200,000	173,000
Net Income Before Minority Interests	490,285	450,980
Minority interests in subsidiaries	2,180	895
Net Income	\$ 488,105	\$ 450,085
Income per Share (note 3)		
Basic	\$4.28	\$4.25
Fully diluted	\$3.91	\$3.87

Consolidated Statement of Assets and Liabilities

(in thousands of dollars)	October 31, 1985	October 31, 1984
Assets		
Cash Resources		
Cash and deposits with Bank of Canada	\$ 1,406,259	\$ 1,531,214
Deposits with other banks	13,585,754	14,043,302
Cheques and other items in transit, net	—	73,694
	14,992,013	15,648,210
Securities (note 4)		
Issued or guaranteed by Canada	3,731,400	2,774,411
Issued or guaranteed by provinces and municipal or school corporations	158,295	86,675
Other securities	6,600,534	4,622,796
	10,490,229	7,483,882
Loans (note 5)		
Day, call and short loans to investment dealers and brokers, secured	626,933	203,342
Loans to banks	2,027,060	2,014,304
Mortgage loans	11,036,848	9,457,975
Other loans	50,139,962	47,338,627
	63,830,803	59,014,248
Other		
Customers' liability under acceptances	4,137,263	3,332,313
Land, buildings and equipment (note 6)	1,028,192	946,847
Other assets (note 7)	1,538,363	1,577,208
	6,703,818	5,856,368
	\$96,016,863	\$88,002,708

(in thousands of dollars)	October 31, 1985	October 31, 1984
Liabilities		
Deposits (note 8)		
Payable on demand	\$ 7,638,391	\$ 6,908,522
Payable after notice	22,471,630	19,021,503
Payable on a fixed date	53,432,948	51,658,320
	83,542,969	77,588,345
Other		
Cheques and other items in transit, net	195,072	—
Acceptances	4,137,263	3,332,313
Liabilities of subsidiaries other than deposits (note 9)	362,369	336,055
Other liabilities (note 10)	1,853,557	1,660,773
Minority interests in subsidiaries	8,528	8,110
	6,556,789	5,337,251
Subordinated Debt		
Bank debentures (note 11)	1,749,254	1,335,877
Capital and Reserves		
Appropriations for contingencies	100,712	102,712
Shareholders' equity		
Capital stock (note 12)	1,839,009	1,646,751
Retained earnings	2,228,130	1,991,772
	4,167,851	3,741,235
	\$96,016,863	\$88,002,708

ROWLAND C. FRAZEE
Chairman and Chief Executive Officer

ALLAN R. TAYLOR
President and Chief Operating Officer

Consolidated Statement of Appropriations for Contingencies

(in thousands of dollars)	Year Ended October 31, 1985	Year Ended October 31, 1984
Balance at Beginning of Year (tax-paid)	\$ 102,712	\$100,197
Loss experience on loans	(685,000)	(742,485)
Provision for loan losses included in the Statement of Income	621,000	535,000
Transfer from Retained Earnings	62,000	210,000
Balance at End of Year (including tax-deductible of \$48,409 in 1985; nil in 1984)	\$ 100,712	\$102,712

Consolidated Statement of Changes in Shareholders' Equity

(in thousands of dollars)	Year Ended October 31, 1985	Year Ended October 31, 1984
Capital Stock		
Balance at Beginning of Year	\$1,646,751	\$1,278,972
Issue of preferred shares	—	229,930
Issue of common shares	191,458	141,516
Preferred shares purchased for cancellation	(4,510)	(5,177)
Translation adjustment on shares issued in foreign currency	5,310	1,510
Balance at End of Year	\$1,839,009	\$1,646,751
Retained Earnings		
Balance at Beginning of Year	\$1,991,772	\$1,919,696
Net income	488,105	450,085
Dividends (note 12)	(267,731)	(247,046)
Gain on preferred shares purchased for cancellation	535	957
Transfer to Appropriations for Contingencies	(62,000)	(210,000)
Income taxes related to the above transfer (note 2)	82,000	91,400
Expenses of share issues net of income taxes (note 2)	—	(1,217)
Unrealized foreign currency translation losses net of income taxes (note 2)	(4,551)	(12,103)
Balance at End of Year	\$2,228,130	\$1,991,772

Notes to the Financial Statements

(All Tabular Figures are in Thousands of Dollars)

1. Significant Accounting Policies

The consolidated financial statements of The Royal Bank of Canada are prepared in accordance with accounting principles prescribed by the Bank Act and the related rules issued by the Inspector General of Banks under the authority of the Minister of Finance, and other prevailing practices of the banking industry. These regulations require the Bank to carry its assets and liabilities on the historical cost basis and to follow the accrual method of accounting.

Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The Bank accounts for the acquisition of subsidiaries using the purchase method; any difference between the cost of the investment and the fair value of assets acquired is amortized over appropriate periods varying from 5 to 25 years.

Investments in associated corporations (corporations owned between 20% and 50%) are accounted for using the equity method. The Bank's share of earnings of these associated corporations and gains and losses

The accounting principles followed in determining Net Income conform in all material respects with accounting principles generally accepted in Canada except for (i) the deferral of gains and losses on the disposal of debt securities and (ii) the accounting for losses on loans.

The significant accounting policies of the Bank are summarized below:

realized on dispositions of investments in associated corporations are included in income from securities.

As required by the Bank Act, a listing of subsidiaries, associated corporations and other corporations in which the Bank owns in excess of 10% of the voting shares is shown in note 17; separate condensed Statements of Assets and Liabilities and condensed Statements of Income for Royal Bank Mortgage Corporation, RoyLease Limited and Royal Bank Venture Capital Limited are included in note 16.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at prevailing quarter-end rates.

Foreign exchange trading positions, including spot and forward contracts, are valued monthly at prevailing market rates and the resulting gains and losses are included in "Other income". Realized gains and losses on foreign exchange transactions are also included in "Other income".

Unrealized foreign currency translation gains and losses (net of hedging gains and losses) on investments in foreign branches, subsidiaries and associated corporations are recorded in Retained Earnings. On disposal of such investments, the accumulated translation gain or loss is included in income.

Interest Rate Futures

The Bank uses interest rate futures in trading activities and to hedge asset and liability values and interest rate exposure.

When used in trading activities, interest rate futures are marked to market and the resultant gains and losses are recognized in current income.

When used for hedging purposes, gains and losses on interest rate futures are deferred and recognized in income over the average expected remaining life of the hedged asset or liability.

Interest Rate and Cross Currency Swaps

The Bank enters into interest rate and cross currency swaps as an intermediary between swapping counterparties in order to earn fee income, and as a principal in order to manage interest rate and foreign currency exposure.

When acting as an intermediary, the Bank records fees for arrangement services in income as received.

When acting as a principal, the bank accrues income or expense associated with interest rate and cross currency swaps over the life of the agreements.

Foreign Currency Options

The Bank enters into foreign currency options as a writer in order to earn fee income, and as a purchaser in order to manage foreign currency exposure.

Both written and purchased foreign currency options are marked to

market and the resultant gains and losses are recognized in current income. For written options, the maximum gain accrued is equal to the premiums received at inception; for purchased options, the maximum loss accrued is equal to the premiums paid at inception.

Securities

Securities include both investment account and trading account securities. Investment account securities are carried at amortized cost. Premiums and discounts are amortized to income on the yield method over the period to maturity of the related securities. Gains and losses realized on disposal of debt securities other than Treasury Bills are deferred and amortized to income over five years. Gains and losses realized on disposal

of other investment securities and write-downs to reflect permanent impairment in value are included in income in the period in which they occur.

Trading account securities are carried at estimated current market value. Gains and losses realized on disposal and unrealized valuation adjustments are included in income in the period in which they occur.

Loans

Loans are stated net of unearned interest and provisions for losses. Specific provisions are established on a loan-by-loan basis to recognize anticipated losses on all types of loans except Visa card balances, which are written off when no payment has been received for 180 days. In addition, general provisions are made in respect of overall exposure in a number of troubled countries based on an assessment of the underlying economic conditions in those countries. Aggregate specific provisions and general provisions for losses on loans are increased by new provisions (the "Loss experience on loans") and reduced by loan write-offs net of recoveries.

The "Loss experience on loans" is charged to "Appropriations for contingencies". The "Provision for loan losses" (based upon a formula prescribed by the Minister of Finance designed to average the loss experience over a five-year period) is charged to income and credited to "Appropriations for contingencies".

Non-performing loans consist of nonaccrual loans and renegotiated reduced rate loans. Nonaccrual loans are those placed on a cash basis because there is reasonable doubt regarding the collectibility of principal or interest. Whenever payment of interest is ninety days past due, loans other than Visa card balances are automatically placed on a nonaccrual basis except in certain instances where management has determined that the collectibility of principal and interest is not reasonably in doubt.

Upon classification of a loan to a nonaccrual basis any previously accrued but unpaid interest thereon is reversed against income of the current period. In subsequent periods, interest received on nonaccrual loans is recorded as income only if management has determined that the loan does not require a specific provision for loss; otherwise interest received is credited to principal. Nonaccrual loans are restored to an accrual basis when principal and interest payments are current and there is no longer any reasonable doubt regarding collectibility.

Renegotiated reduced rate loans provide for a rate of interest lower than the prevailing market rates on similar loans to new borrowers.

Loan fees are included in income as received only where they relate to expenses incurred or services performed. Loan rescheduling fees and fees received which are in lieu of interest are deferred and amortized over the term of the loan.

Lease receivables, included in loans on the Statement of Assets and Liabilities, represent the aggregate remaining lease payments less unearned income. Unearned income, which at the inception of the lease represents the difference between total lease payments receivable and the cost of the leased asset, is amortized to income over the lease term so as to yield a constant rate of return on the declining balance of the lease receivable.

Acceptances

The Bank's potential liability under acceptances is reported as a liability in the Statement of Assets and Liabilities. The Bank's recourse against the

customer in the case of a call on these commitments is reported as an offsetting asset of the same amount.

Land, Buildings and Equipment

Land, buildings and equipment are reported at cost and are depreciated principally on the straight-line method over their estimated useful lives as follows:

Buildings	20 to 50 years
Computer equipment	6 years
Furniture, fixtures and other equipment	7 to 10 years
Leasehold improvements	term of lease plus first option period

Appropriations for Contingencies

The Bank makes appropriations for contingencies with respect to possible unforeseen losses on loans (in addition to specific provisions for losses on identified loans and general provisions for losses on lending to

troubled countries) through transfers from Retained Earnings. Of such transfers, the maximum amount which may be made on a tax-deductible basis is prescribed in regulations of the Minister of Finance.

Income Taxes

The Bank follows the tax allocation basis of accounting under which income taxes on specific transactions are recorded in the periods in which the transactions are recognized for accounting purposes regardless of when the transactions are recognized for tax purposes. Deferred income taxes accumulated as a result of such timing differences are

included either in "Other assets" or "Other liabilities" as applicable. In addition, the Statement of Income contains items which are non-taxable or non-deductible for income tax purposes. Such permanent differences cause the income tax provision to be different than it would be based on statutory rates.

2. Income Taxes

1985

1984

The total income taxes for the year are reported in the consolidated financial statements as follows:

Statement of Income	\$200,000	\$173,000
Statement of Retained Earnings-		
Transfer to appropriations for contingencies	(82,000)	(91,400)
Expenses of share issues	—	(1,200)
Unrealized foreign currency translation losses	(38,000)	(4,500)
Total Income Taxes	\$ 80,000	\$ 75,900

The current and deferred income taxes are as follows:

Current income taxes	\$ 60,385	\$ 51,931
Deferred income taxes	19,615	23,969
Total Income Taxes	\$ 80,000	\$ 75,900

Income taxes in the Statement of Income are at an effective rate less than the combined federal and provincial statutory income tax rate for the following reasons:

Combined federal and provincial statutory income tax rate	48.9%	48.4%
Increase (decrease) in rate resulting from:		
Tax-exempt income from securities, primarily income debentures, term preferred shares and small business bonds	(13.4)	(17.1)
Lower average tax rate applicable to foreign subsidiaries	(7.2)	(4.9)
Other, net	0.7	1.3
Effective income tax rate	29.0%	27.7%

3. Income per Share

Basic Income per Share is after deducting preferred dividends of \$71,780,000 (1984 - \$64,333,000) and has been calculated on the average number of common shares outstanding. The average number of common shares outstanding for the year ended October 31, 1985 was 97,321,503 (1984 - 90,840,090).

Fully Diluted Income per Share has been calculated on the average number of common shares which would have been outstanding in each year assuming conversion of all conver-

tible securities and exercise of all warrants outstanding as at the beginning of each year or date of issue if later. For purposes of this calculation, adjustments have been made for the after-tax interest on convertible debentures, the dividends on convertible preferred shares and an imputed after-tax return at an appropriate rate on additional funds of \$41,997,000 which would be received on the conversion of the second preferred shares series A.

4. Securities

	Maturity					1985		1984	
	Within 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Carrying Amount	Estimated Market Value	Carrying Amount	Estimated Market Value
Securities Issued or Guaranteed by Canada and Provinces	\$3,860,404	\$ 26,685	\$ 269	\$ 246	\$ 2,091	\$ 3,889,695	\$ 3,891,079	\$2,861,086	\$2,843,412
Other Debt Securities:									
Floating rate income debentures	40,972	82,311	42,534	31,550	120,750	318,117	318,117	375,729	375,729
Floating rate small business bonds	15,922	124,193	302,166	—	—	442,281	442,281	580,736	580,736
Other	316,452	1,933,270	494,353	442,418	301,134	3,487,627	3,504,129	1,397,087	1,398,385
Other Equity Securities:									
Floating rate term preferred shares	100,668	657,666	426,197	505,194	44,309	1,734,034	1,734,034	1,854,472	1,854,472
Associated corporations					153,697	153,697*	153,697	110,239	110,239
Other					464,778	464,778*	442,454	304,533	270,850
	\$4,334,418	\$2,824,125	\$1,265,519	\$979,408	\$1,086,759	\$10,490,229	\$10,485,791	\$7,483,882	\$7,433,823

*These securities have no stated maturity

5. Loans, net of Provisions for Losses	1985	1984
Domestic*		
Day, call and short loans to investment dealers and brokers, secured	\$ 577,185	\$ 104,447
Provinces and municipal or school corporations	287,072	172,893
Lease receivables	455,634	438,895
Mortgage loans	10,611,365	8,990,230
Other loans	32,408,770	31,055,232
	44,340,026	40,761,697
International*		
Lease receivables	193,765	84,312
Associated corporations	119,708	108,532
Loans to banks	2,024,945	2,011,389
Other loans	17,152,359	16,048,318
	19,490,777	18,252,551
	\$63,830,803	\$59,014,248

*Domestic loans include all loans booked in Canada, regardless of currency, with the exception of those of the Canadian-based International Money Markets.
The loans of this unit, together with loans booked outside Canada, comprise International loans.

Non-Performing Loans, net of Provisions for Losses (included above)

Nonaccrual Loans		
Domestic	\$1,231,205	\$1,406,537
International	1,217,892	1,276,353
	\$2,449,097	\$2,682,890
Renegotiated Reduced Rate Loans		
Domestic	\$174,593	\$106,444
International	5,337	—
	\$179,930	\$106,444

6. Land, Buildings and Equipment	1985			1984
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 130,112	\$ —	\$ 130,112	\$124,919
Buildings	620,059	144,091	475,968	447,078
Computer equipment	318,143	146,405	171,738	149,308
Furniture, fixtures and other equipment	349,780	226,830	122,950	106,862
Leasehold improvements	211,050	83,626	127,424	118,680
	\$1,629,144	\$600,952	\$1,028,192	\$946,847

Depreciation expense for the year ended October 31, 1985 was \$97,867,000 (1984 - \$84,496,000)

7. Other Assets	1985	1984
Accrued interest	\$ 972,796	\$1,015,533
Unamortized past service pension contributions	42,200	47,920
Unamortized losses on disposal of debt securities	—	22,049
Deferred income taxes	60,388	50,607
Goodwill	54,542	41,831
Sundry	408,437	399,268
	\$1,538,363	\$1,577,208

8. Deposits			1985	1984
	Payable on Demand	Payable after Notice	Payable on a Fixed Date	Total
Domestic*				
Deposits by Canada	\$1,295,651	\$ —	\$ —	\$ 1,295,651
Deposits by provinces	52,023	204	4,878	57,105
Deposits by banks	398,755	124,918	51,434	575,107
Deposits by individuals	787,359	18,545,661	15,529,060	34,862,080
Other deposits	3,863,686	2,654,841	6,246,419	12,764,946
	6,397,474	21,325,624	21,831,791	49,554,889
International*				
Deposits by provinces	—	—	81,422	81,422
Deposits by banks	338,152	182,255	17,836,242	18,356,649
Deposits by individuals	333,091	866,029	2,892,373	4,091,493
Other deposits	569,674	97,722	10,791,120	11,458,516
	1,240,917	1,146,006	31,601,157	33,988,080
	\$7,638,391	\$22,471,630	\$53,432,948	\$83,542,969

*Domestic deposits include all deposits booked in Canada, regardless of currency, with the exception of those of the Canadian-based International Money Markets. The deposits of this unit, together with deposits booked outside Canada, comprise International deposits.

9. Liabilities of Subsidiaries other than Deposits

These liabilities are subordinated in right of payment to claims of the depositors and certain other creditors of the respective subsidiaries.

	1985	1984
RoyLease Limited		
Long-term notes payable in various amounts to 1992 and bearing interest at rates from 5 3/4% to 11 1/4%	\$298,901	\$271,377
The Royal Bank of Canada (Curaçao) N.V.		
7 3/4% DM 100,000,000 bonds due 1990	52,255	43,022
Other subsidiaries	11,213	21,656
	\$362,369	\$336,055
10. Other Liabilities		
	1985	1984
Accrued interest	\$1,210,393	\$1,299,177
Dividends payable	67,302	65,297
Unamortized gains on disposal of debt securities	53,513	—
Accounts payable and accrued expenses	522,349	296,299
	\$1,853,557	\$1,660,773

11. Bank Debentures

The debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors of the Bank.

In accordance with the formula prescribed in the Bank Act, as at November 1, 1985 the Bank had the capacity to issue an additional \$384,000,000 of debentures.

Maturity	Rate		1985	1984
May 15, 1986	10%	Callable	\$ 40,000	\$ 40,000
June 1, 1986	9¼%		60,000	60,000
April 7, 1987	(2)		136,750	131,440
June 1, 1987	9%		75,000	75,000
December 1, 1987	7½% (1)	Callable	789	789
April 1, 1988	9½% (1)	Callable	19,803	22,890
February 15, 1989	10.40%		75,000	75,000
November 15, 1990	(3)		75,000	75,000
April 15, 1991	7% (1)	Callable	2,762	2,827
July 22, 1991	12% (4)	Convertible	100,000	100,000
December 9, 1991	(5)	Convertible, callable on or after December 10, 1986	259,778	259,781
February 15, 1992	9% (1)	Callable	31,547	34,244
May 15, 1994	10% (1)	Callable on or after May 15, 1986	34,908	35,326
December 1, 1994	10% (1)	Callable	6,729	75,000
May 22, 2000	11½% (1),(6)	Callable on or after November 22, 1992	102,562	98,580
July 5, 2005	(7)	Callable on or after July 6, 1990	478,626	—
October 1, 2083	(8)	Callable on or after October 2, 1989	250,000	250,000
			\$1,749,254	\$1,335,877

(1) Subject to sinking fund provisions.

(2) The April 7, 1987 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S.\$100,000,000. These debentures bear interest at a rate equal to the average of the six months LIBOR.

(3) The November 15, 1990 debentures bear interest at a rate of ½ of 1% below the Bank's average daily prime rate.

(4) The July 22, 1991 debentures are convertible at the option of the holder prior to July 21, 1991 into common shares at a conversion price of \$35 per common share. These debentures are also convertible at the option of the Bank on or after July 23, 1986 at a conversion price of \$35 per common share if the common shares have traded at or in excess of certain weighted average prices.

(5) Subject to the call provisions, the December 9, 1991 debentures are convertible at the option of the holder up to and including December 9, 1991 into common shares at a conversion price of \$30 per common share subject to adjustment in certain events. The debentures bore interest at a rate of 15½% to December 9, 1983 and 11¼% thereafter.

(6) The May 22, 2000 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S.\$75,000,000.

(7) The July 5, 2005 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. \$350,000,000. These debentures bear interest at a rate of ⅙ of 1% above LIBOR.

(8) The October 1, 2083 debentures bear interest at a rate of .40% above the 30-day Bankers' Acceptance rate reported by the Bank of Canada.

The aggregate sinking fund requirements and maturities of the Bank's debentures assuming the earliest possible dates of maturity under the terms of issue are as follows:

Within 1 year	\$ 109,520
From 1 to 2 years	223,152
From 2 to 3 years	24,736
From 3 to 5 years	94,894
From 5 to 10 years	532,414
Over 10 years	764,538

\$1,749,254

12. Capital Stock

Authorized Capital Stock -

Preferred - 50,000,000 First Preferred Shares and 50,000,000 Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares may be issued shall not exceed \$1,250,000,000 in each case.

Common - 250,000,000 shares without nominal or par value provided that the aggregate consideration shall not exceed \$3,000,000,000.

	1985		1984	
	Number of Shares (in thousands)	Amount	Number of Shares (in thousands)	Amount
Outstanding Capital Stock -				
First Preferred -				
\$1.88 Cumulative Redeemable First Preferred Shares Series A (1)				
Outstanding at beginning of year	5,386	\$ 134,643	5,593	\$ 139,820
Purchased for cancellation	181	4,510	207	5,177
Outstanding at end of year	5,205	130,133	5,386	134,643
\$1.45 First Preferred Shares Series B, Cumulative and Redeemable and Convertible when tendered with Common Share Warrants (2)				
Outstanding at end of year	15,000	300,000	15,000	300,000
Floating Rate Cumulative Redeemable First Preferred Shares Series C (3)				
Issued in June 1984 and outstanding at end of year	1,000	100,000	1,000	100,000
U.S.\$ Floating Rate Cumulative Redeemable First Preferred Shares Series D (3)				
Outstanding at beginning of year	1,000	131,440	—	—
Issued in June 1984	—	—	1,000	129,930
Foreign currency translation adjustment	—	5,310	—	1,510
Outstanding at end of year	1,000	136,750	1,000	131,440
Second Preferred -				
\$2.75 Cumulative Redeemable Convertible Second Preferred Shares Series A (4)				
Outstanding at beginning of year	8,399	209,985	8,400	210,000
Converted into Common Shares	—	—	1	15
Outstanding at end of year	8,399	209,985	8,399	209,985
Common -				
Outstanding at beginning of year	92,873	770,683	88,162	629,152
Issued under the Shareholder Dividend and Share Purchase Plan	6,554	191,455	4,703	141,294
Issued on conversion of Preferred Shares	—	—	1	18
Issued on conversion of Debentures	—	3	7	219
Outstanding at end of year	99,427	962,141	92,873	770,683
Total Outstanding Capital Stock		\$1,839,009		\$1,646,751

- (1) The Bank has undertaken to purchase in each calendar quarter 48,000 of the First Preferred Shares Series A, if available, at prices not exceeding \$25 per share.
- (2) 7,500,000 Common Share Warrants are outstanding. Each Warrant entitles the holder to purchase one Common Share at a price of \$40 on or prior to June 9, 1988, subject to adjustment in certain events. In addition, each Warrant gives the holder the option to tender two First Preferred Shares Series B, in lieu of cash, in return for one Common Share, subject to adjustment in certain events. After June 9, 1988 the Bank will have the option to redeem the First Preferred Shares Series B at \$21 per share reducing by \$0.20 per year until June 9, 1993 and thereafter at \$20. The Bank may at any time purchase for cancellation First Preferred Shares Series B at a price per share, if purchased at any time on or prior to June 9, 1988, not exceeding \$21 and, if purchased thereafter, at a price per share not exceeding the then applicable above-mentioned redemption price. These redemption and purchase for cancellation options are subject to the consent of the Inspector General of Banks.
- (3) The dividends on the Floating Rate First Preferred Shares Series C and D are determined quarterly by applying to Cdn.\$100 and U.S.\$100 respectively, the greater of (i) 6.67% per annum and (ii) $\frac{2}{3}$ of the Bank's average Canadian and U.S. prime rates respectively for stated periods. The Floating Rate First Preferred Shares Series C and D are not redeemable by the Bank prior to June 8, 1989 but thereafter are redeemable at a price per share of Cdn.\$100 and U.S.\$100 respectively. The Bank may at any time purchase for cancellation Floating Rate First Preferred Shares Series C and D at a price per share, not exceeding Cdn.\$100 and U.S.\$100 respectively. These redemption and purchase for cancellation options are subject to the consent of the Inspector General of Banks.
- (4) Subject to the Bank's right of conversion, each Second Preferred Share Series A is convertible at the option of the holder up to and including December 8, 1988 into one Common Share upon payment by the holder of \$5, being a conversion price of \$30 per Common Share, subject to adjustment in certain events. If the Common Shares trade at a price in excess of 125% of the prevailing conversion price for a specified period, the Bank shall have the right, upon notice, to convert the Second Preferred Shares Series A into Common Shares at the prevailing conversion price. No additional payment will be required from the holders of Second Preferred Shares Series A so converted. However, during the notice period, a holder of Second Preferred Shares Series A will continue to have the right to convert, at his option, each Second Preferred Share Series A into one Common Share upon the payment of \$5 per share converted. Commencing January 1, 1989 the Bank has undertaken to purchase in each calendar quarter 1% of the shares outstanding as of December 10, 1988, if available, at prices not exceeding \$25 per share. The Second Preferred Shares Series A are retractable at the option of the holder on or before November 9, 1988, for redemption on December 9, 1988 at a price of \$28.75 per share.

As at October 31, 1985, Common Shares were reserved for possible issuance as follows:

	Number (in thousands)
- Under the Shareholder Dividend and Share Purchase Plan.....	12,910
- Upon conversion of the July 22, 1991 debentures.....	2,857
- Upon conversion of the December 9, 1991 debentures.....	8,659
- Upon conversion of the Second Preferred Shares Series A.....	8,399
- Upon exercise of the Common Share Warrants.....	7,500
	40,325

Dividends Declared	1985	1984
Preferred		
First Preferred		
Series A.....	\$ 9,946	\$ 10,303
Series B.....	21,750	21,750
Series C.....	7,448	3,952
Series D.....	9,536	5,228
Second Preferred		
Series A.....	23,100	23,100
	71,780	64,333
Common	195,951	182,713
	\$267,731	\$247,046

13. Pension Plan

The Bank has a defined benefit pension plan which is available to all employees after five years service or at age 25, on a contributory or a non-contributory basis.

An actuarial valuation of the pension fund is performed each year and as at January 1, 1985, the date of the latest valuation, the pension plan had a funding excess.

Unamortized past service pension contributions are included in "Other assets" and are being charged to income over periods through to 1993. Total pension expense, including the amortization of past service contributions, amounted to \$12,013,000 for the year ended October 31, 1985 (1984 - \$12,985,000).

14. Commitments and Contingent Liabilities

In the normal course of business the Bank undertakes various commitments and has contingent liabilities which are not reflected in the financial statements. These include guarantees and letters of credit, commitments to extend credit, foreign exchange contracts, interest rate futures, interest rate and cross currency swaps and foreign currency options written. Management does not anticipate any material losses to result from these transactions.

Outstanding amounts in respect of guarantees and letters of credit are as follows:

	1985	1984
Guarantees (including \$19,948,000 to associated corporations, 1984 - \$32,326,000)	\$2,940,279	\$2,808,108
Letters of credit	1,868,193	1,591,773
	\$4,808,472	\$4,399,881

15. Domestic and International Operations

The Bank considers its Domestic Operations to include all business transacted in Canada, regardless of currency, with the exception of the Canadian-based activities of International Money Markets. This unit, together with the Bank's business carried on outside Canada, comprise International Opera-

Minimum future rental commitments for buildings under long-term non-cancellable leases for the next five years are:

1986	\$66,050
1987	59,875
1988	50,856
1989	45,509
1990	40,844

Annual rental commitments after 1990 are in decreasing amounts.

Various legal proceedings are pending against the Bank and its subsidiaries. Management considers that the aggregate liability resulting from these proceedings will not be material.

tions. While it is not practicable to make a definitive division of its Domestic and International Operations, appropriate allocations are made for (a) the cost of funds related to liquidity and capital computed on the basis of marginal costs of funds, and (b) corporate non-interest expenses.

	Domestic		International		Total	
	1985	1984	1985	1984	1985	1984
Net interest income - taxable equivalent basis	\$ 1,922,837	\$ 1,930,710	\$ 693,065	\$ 543,960	\$ 2,615,902	\$ 2,474,670
Deduct: Taxable equivalent adjustment*	138,193	182,094	36,794	38,876	174,987	220,970
Net interest income - financial statement basis	1,784,644	1,748,616	656,271	505,084	2,440,915	2,253,700
Provision for loan losses	343,000	327,000	278,000	208,000	621,000	535,000
	1,441,644	1,421,616	378,271	297,084	1,819,915	1,718,700
Other income	584,973	531,394	233,568	177,398	818,541	708,792
	2,026,617	1,953,010	611,839	474,482	2,638,456	2,427,492
Non-interest expenses	1,529,183	1,425,552	418,988	377,960	1,948,171	1,803,512
	497,434	527,458	192,851	96,522	690,285	623,980
Income taxes	166,500	168,500	33,500	4,500	200,000	173,000
	330,934	358,958	159,351	92,022	490,285	450,980
Minority interests	—	—	2,180	895	2,180	895
Net income	330,934	358,958	157,171	91,127	488,105	450,085
Average total assets	\$58,800,000	\$55,300,000	\$33,500,000	\$31,400,000	\$92,300,000	\$86,700,000

*The taxable equivalent adjustment represents a credit to interest income in order to gross up the tax-exempt income earned on certain securities (primarily small business bonds, income debentures and term preferred shares) to an amount which, had it been taxable at a rate of 48.9% in 1985 and 50% in 1984, would result in the

same after tax net income as appears in the financial statements. The gross up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.

16. Condensed Financial Statements of Wholly-owned Mortgage, Leasing and Venture Capital Subsidiaries

Royal Bank Mortgage Corporation

Statement of Assets and Liabilities (in thousands of dollars)	October 31, 1985	October 31, 1984
Assets		
Mortgage loans	\$6,367,515	\$5,270,557
Personal loans	987,497	—
Other investments	562,419	804,088
	\$7,917,431	\$6,074,645
Liabilities		
Accrued interest and other liabilities	\$ 182,509	\$ 156,870
The Royal Bank of Canada	3,012,013	910,312
Short-term promissory notes	135,276	775,330
Investment certificates		
Due within one year	2,520,386	1,796,901
Due beyond one year	1,745,385	2,186,898
Deferred income taxes	25,678	30,307
Preferred and common stock	122,800	112,800
Contributed surplus	130,000	60,000
Retained earnings	43,384	45,221
	\$7,917,431	\$6,074,645

Statement of Income (in thousands of dollars)	Year Ended October 31, 1985	Year Ended October 31, 1984
Income		
Interest on mortgages	\$629,875	\$675,032
Interest on personal loans	11,692	—
Interest on investments	53,273	65,639
	694,840	740,671
Expenses		
Interest - The Royal Bank of Canada	101,318	180,796
Interest on short-term promissory notes	46,236	92,327
Interest on investment certificates	477,761	389,710
Operating expenses	56,412	57,777
	681,727	720,610
Net Income Before Income Taxes	13,113	20,061
Income taxes	(5,168)	(5,183)
Net Income	\$ 18,281	\$ 25,244

RoyLease Limited

Statement of Assets and Liabilities (in thousands of dollars)	October 31, 1985	October 31, 1984
Assets		
Receivable under lease agreements	\$547,706	\$509,378
Amount due under conditional sale agreements	4,577	16,053
Other	6,916	6,751
	\$559,199	\$532,182
Liabilities		
Accrued interest and other liabilities	\$ 24,135	\$ 17,930
Short-term promissory notes	86,330	71,901
Long-term debt		
The Royal Bank of Canada	3,575	18,850
Other	306,543	289,518
Deferred income taxes	75,924	71,122
Common stock	21,975	21,975
Retained earnings	40,717	40,886
	\$559,199	\$532,182

Statement of Income (in thousands of dollars)	Year Ended October 31, 1985	Year Ended October 31, 1984
Income		
Leases	\$66,951	\$63,750
Conditional sales agreements	1,479	4,312
	68,430	68,062
Expenses		
Interest on short-term promissory notes	6,015	4,265
Interest on long-term debt		
The Royal Bank of Canada	1,672	3,745
Other	30,181	26,244
Operating expenses	11,547	12,306
	49,415	46,560
Net Income Before Income Taxes	19,015	21,502
Income taxes	9,184	10,236
Net Income	\$ 9,831	\$11,266

Royal Bank Venture Capital Limited

Statement of Assets and Liabilities (in thousands of dollars)	October 31, 1985	October 31, 1984
Assets		
Cash and short-term deposits	\$ 9	\$ 85
Investments	10,054	7,247
Other assets	233	134
	\$10,296	\$7,466
Liabilities		
Accrued interest and other liabilities	\$ 497	\$ 469
The Royal Bank of Canada	6,315	3,116
Common stock	3,905	3,905
Deficit	(421)	(24)
	\$10,296	\$7,466

Statement of Income (in thousands of dollars)	Year Ended October 31, 1985	Year Ended October 31, 1984
Income		
Interest and dividends	\$ 613	\$342
Fees and commissions	152	232
	765	574
Expenses		
Interest - The Royal Bank of Canada	497	199
Operating Expenses	666	464
	1,163	663
Net Loss Before Income Taxes	(398)	(89)
Income taxes	—	—
Net Loss	\$ (398)	\$ (89)

17. Corporations in which the Bank owns more than 10% of the Voting Shares	Principal Office Address	Carrying Value of Voting Shares owned by the Bank	Percent of Voting Shares owned by the Bank
Royal Bank Mortgage Corporation	Montreal, Canada	\$198,184	100%
RoyLease Limited	Montreal, Canada	65,665	100
Royal Bank Realty Inc.	Montreal, Canada	32,410	100
Globe Realty Management Limited	Toronto, Canada		100
Royal Bank Export Finance Co. Ltd.	Toronto, Canada	10,013	100
Royal Bank Venture Capital Limited	Toronto, Canada	3,484	100
RoyNat Inc.	Montreal, Canada	27,700	42
Chargex Ltd.	Montreal, Canada	—	25
RBC Holdings (U.S.A.) Inc.	New York, U.S.A.	163,524	100
The Royal Bank and Trust Company	New York, U.S.A.		100
Orion Royal Inc.	New York, U.S.A.		100
Royal Bank de Puerto Rico	San Juan, Puerto Rico	44,483	100
The Royal Bank of Canada (Middle East) S.A.L.	Beirut, Lebanon	938	55
RBC Australia Holdings Limited	Melbourne, Australia	35,156	100
National Mutual RBC Limited	Melbourne, Australia		50
RBC Australia Finance Limited	Melbourne, Australia		50
RoyAust Management Limited	Melbourne, Australia		50
The Royal Bank of Canada (Asia) Limited	Singapore	123,621	100
The Royal Bank of Canada International Limited	Nassau, Bahamas	277,464	100
Layor C.A.	Caracas, Venezuela		19
Canada International (Cayman) Limited	George Town, Grand Cayman		100
R.B.C. Investments Limited	Nassau, Bahamas		100
Banco Royal Venezolano, C.A.	Caracas, Venezuela		20
Banco Royalven Curaçao, N.V.	Curaçao, Netherlands Antilles		36
Favourable Investments Inc.	Hong Kong		25
Canadian Overseas Development Company Limited	Hong Kong		25
RoyWest Holdings Limited	Nassau, Bahamas		50
RoyWest Investments Limited	Nassau, Bahamas		50
RoyWest Trust Corporation Limited	Nassau, Bahamas		50
The Royal Bank of Canada Representacoes S/C Ltda.	São Paulo, Brazil	1,439	100
Royal Bank Trust Company (Barbados) Limited	Bridgetown, Barbados	856	100
R.B.C. Bay Street Properties Limited	Nassau, Bahamas	106	100
R.B.C. Bahamas Limited	Nassau, Bahamas	198,543	100
Finance Corporation of Bahamas Limited	Nassau, Bahamas		75
The Royal Bank of Canada (Barbados) Limited	Bridgetown, Barbados		100
RoyMidEast Limited	George Town, Grand Cayman		100
RoyCan International Banking Limited	Nassau, Bahamas		100
Bishops International Bank Limited	Nassau, Bahamas		100
Banco Royal Colombiano	Bogotá, Colombia	3,226	49
The Royal Bank of Trinidad and Tobago Limited	Port of Spain, Trinidad	45,654	47
Royal Bank Trust Company (Trinidad) Limited	Port of Spain, Trinidad		47
The Royal Bank Mortgage and Finance Company Limited	Port of Spain, Trinidad		47
General Finance Corporation Limited	Port of Spain, Trinidad		19
Banco Royal do Canada (Brasil) S.A.	São Paulo, Brazil	25,495	100
Ouvidor Industria E Comercio Ltda.	Rio de Janeiro, Brazil	10	100
Caribbean Financial Services Corporation	Bridgetown, Barbados	222	12

The carrying value of voting shares owned 20% or more by the Bank is stated at the Bank's equity in such investments.

17. Corporations in which the Bank owns more than 10% of the Voting Shares (continued)

	Principal Office Address	Carrying Value of Voting Shares owned by the Bank	Percent of Voting Shares owned by the Bank
RBC Houdstermaatschappij, B.V.	Amsterdam, Netherlands	\$ 12,835	100%
The Royal Bank of Canada (Curaçao) N.V.	Curaçao, Netherlands Antilles		100
The Royal Bank of Canada (France) S.A.	Paris, France		100
RBC Finance B.V.	Amsterdam, Netherlands	84,235	100
Multinational Orion Leasing Holdings N.V.	Amsterdam, Netherlands	5,297	100
Orion Export Leasing Limited	George Town, Grand Cayman		100
Orion Leasing Nederland B.V.	Amsterdam, Netherlands		100
Orion Leasing Singapore Pte. Limited	Singapore		100
RBC Management Services B.V.	Amsterdam, Netherlands	2,183	100
Orion Multinational Services Limited	London, England		100
Orion Multinational Services Inc.	New York, U.S.A.		100
RBC Holdings B.V.	Amsterdam, Netherlands	304,629	100
Orpac Holdings Limited	Hong Kong		100
The Royal Bank of Canada (Suisse)	Geneva, Switzerland		100
The Royal Bank of Canada A.G.	Frankfurt, Germany		100
Intercontact GMBH	Düsseldorf, Germany		100
The Royal Bank of Canada (Belgium) S.A.	Brussels, Belgium		100
The Royal Bank of Canada (Channel Islands) Limited	Guernsey, Channel Islands		100
Orion Royal Bank (Guernsey) Limited	Guernsey, Channel Islands		100
RBC Investment Managers Limited	Guernsey, Channel Islands		100
The Royal Bank of Canada Trustees (Jersey) Limited	Jersey, Channel Islands		100
The Royal Bank of Canada Trustees (Guernsey) Limited	Guernsey, Channel Islands		100
RoyCan Trust Company, S.A.	Geneva, Switzerland		100
The Royal Bank of Canada (Overseas) N.V.	Curaçao, Netherlands Antilles		100
China Investment and Finance Limited	Hong Kong		50
InchRoy Credit Corporation Limited	Hong Kong		70
The Royal Bank of Canada Holdings (U.K.) Limited	London, England		100
Libra Bank Limited	London, England		11
The Royal Bank of Canada Trade Finance Limited	London, England		100
RBC Trade Finance Serviços Ltda.	São Paulo, Brazil		100
RBC Trade Finance Inc.	New York, U.S.A.		100
RBC Trade Finance S.A.	Brussels, Belgium		100
The Royal Bank of Canada Forfait Finance Limited	London, England		100
The Royal Bank of Canada Trade Credit Limited	London, England		100
The Royal Bank of Canada Export Credit Limited	London, England		100
Tennant-OFE S.A.	Paris, France		70
RBC Properties (U.K.) Limited	London, England		100
Chancellor Investments Limited	London, England		100
Orion Royal Bank Limited	London, England		100
Orion (Cayman) Limited	George Town, Grand Cayman		100
Orion Royal Bank Equities of Canada Limited	London, England		100
Orion Royal Bank Participations Limited	London, England		100
Kitcat & Aitken	London, England		30
Orion Leasing Holdings Limited	London, England		100
Orion Leasing Limited	London, England		100
Orion Factors Limited	London, England		100
Orion Finance Limited	London, England		100
Orion Pacific Holdings Limited	Hong Kong		100
Orion Royal Pacific Limited	Hong Kong		100
Orion (Caribbean) Limited	George Town, Grand Cayman		100
RBC Systems Limited	London, England		100
Western Trust & Savings Holdings Limited	Plymouth, England		100
Western Trust & Savings Insurance Services Limited	Plymouth, England		100
Western Trust & Savings Limited	Plymouth, England		100

DIRECTORS

AS AT OCTOBER 31, 1985



Rowland C. Frazee
Montreal
*Chairman and Chief
Executive Officer*
The Royal Bank of
Canada



Allan R. Taylor
Toronto
*President and Chief
Operating Officer*
The Royal Bank of
Canada



H. E. Wyatt
Calgary
Vice-Chairman
The Royal Bank of
Canada



Robin W. Adam
London, England
Chairman
MEPC plc



John Anderson
Vancouver
*President and Chief
Executive Officer*
Westcoast
Transmission
Company Limited



John A. Armstrong
Toronto
Company Director



Ian A. Barclay
Vancouver
Vice-Chairman
British Columbia
Forest Products
Limited



G. H. Blumenauer
Hamilton
*Chairman of the
Board*
Otis Canada, Inc.



G. Allan Burton,*
D.S.O., E.D., LL.D.
Toronto
Company Director



Robert W. Campbell
Calgary
*Chairman and Chief
Executive Officer*
Canadian Pacific
Enterprises Limited



Frank B. Common, Jr.,
Q.C.
Montreal
Counsel
Ogilvy, Renault



Camille A. Dagenais,
C.C., LL.D.
Montreal
Chairman
The SNC Group



Mitzi S. Dobrin
Montreal
*Chairman and Chief
Executive Officer*
Dobrin Holdings Inc.



G. Campbell Eaton,
O.C., M.C., C.D., LL.D.
St. John's, Nfld.
President
Dublin Ltd.



John R. Evans,
C.C., M.D.
Mississauga
*Chairman and Chief
Executive Officer*
Allelix Inc.



Jock K. Finlayson
Montreal
Chairman
Royal Insurance
Company of Canada



W. D. H. Gardiner
Vancouver
President
W. D. H. G. Financial
Associates Ltd.



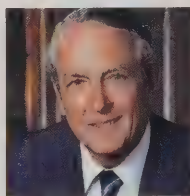
Arden R. Haynes
Toronto
*Chairman,
President and Chief
Executive Officer*
Imperial Oil Limited



Charles H. Knight
Regina
*Chief Executive
Officer*
Denro Holdings Ltd.



Walter F. Light
Toronto
Retired Chairman
Northern Telecom
Limited



**P. L. P. Macdonnell,
C.M., Q.C.**
Edmonton
Partner
Milner & Steer



Clifford S. Malone
Toronto
Vice-Chairman
United Corporations
Limited



Alexander B. Marshall
London, England
Chairman
Commercial Union
Assurance
Company plc



J. Pierre Maurer
New York
*Executive
Vice-President*
Metropolitan Life
Insurance Company



D. K. McIvor
New York
*Senior Vice-President
and Director*
Exxon Corporation



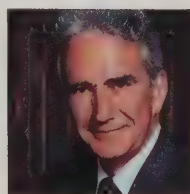
Dawn R. McKeag
Winnipeg
President
Walford Investments
Ltd.



W. Earle McLaughlin
Montreal
*Former Chairman of
the Board*
The Royal Bank of
Canada



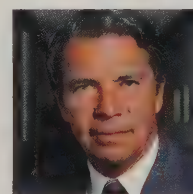
**J. W. E. Mingo,
Q.C.**
Halifax
Barrister
Stewart MacKeen &
Covert



Pierre A. Nadeau
Montreal
*Chairman of the
Board*
Tioxide Canada Inc.



J. Edward Newall
Mississauga
*Chairman, President
and Chief Executive
Officer*
Du Pont Canada Inc.



Paul Paré
Montreal
*Chairman and Chief
Executive Officer*
Imasco Limited



Ralph A. Pfeiffer, Jr.
North Tarrytown, N.Y.
*Chairman and Chief
Executive Officer*
IBM World Trade
Americas/Far East
Corporation



Neil F. Phillips,
Q.C.
New York
*Resident Senior
Counsel*
Phillips & Vineberg



Herbert C. Pinder
Saskatoon
President
Saskatoon Trading
Company Limited



Claude Pratte,
Q.C.
Quebec
Partner
Stein, Monast,
Pratte & Marseille



Charles I. Rathgeb
Scarborough
Chairman
Comstock
International Ltd.



Kenneth C. Rowe**
Halifax
*Chairman, President
and Chief Executive
Officer*
I.M.P. Group
Limited



P. N. Thomson
New Providence,
Bahamas
*Chairman and
President*
West Indies Power
Corporation Limited



John A. Tory,
Q.C.
Toronto
President
The Thomson
Corporation
Limited



Robert A. Utting*
Montreal
President
R.A. Utting
& Associates Inc.



W. P. Wilder
Toronto
Chairman of the Board
The Consumers' Gas
Company Ltd.

*Retiring January 9, 1986
**Joined Board November 5, 1985

The five standing committees of the Board of Directors of The Royal Bank of Canada, as listed below, have the responsibility of maintaining integrity and sensitivity within the major areas of activity of the Bank, consistent with the strategic development goals of the corporation.

The Loan Policy Committee sustains an advisory role with regard to the lending policies and practices of the Bank.

Chairman: F.B. Common, Jr.
Members: R.W. Campbell, G.C. Eaton, P.L.P. Macdonnell, C.S. Malone, W.E. McLaughlin, J.W.E. Mingo, J.E. Newall, P.N. Thomson.

The Loan Policy Committee reviews and monitors the application of credit policy to ensure prudent risk management and consistent strategic planning. Loans of magnitude exceeding the generally acceptable percentage of capital, and those involving unusual circumstances are studied by the committee prior to management approval. Loans to directors

and employees are approved by this group and, as required by the Bank Act, are reported to the Board of Directors. Finally, subject to the provisions of the Bank Act, administrative matters of an urgent nature may be referred to this committee for approval prior to subsequent review by the following meeting of the Board.

The committee meets regularly, twice a month, in addition to policy meetings and reports its activities to the Board with appropriate recommendations, desirable in the circumstances.

The Audit Committee assumes the responsibility of reviewing the audited annual financial statements and internal control procedures of the Bank, and of ensuring that disclosure of accurate, reliable data is made to interested parties.

Chairman: N.F. Phillips.
Members: I.A. Barclay, G.H. Blumenauer, D.K. McIvor, R.A. Pfeiffer, Jr., H.C. Pinder.

The Audit Committee, through meetings with shareholders' auditors, Chief Inspector and periodic reviews of internal control procedures and accounting practices of the Bank, ensures compliance with the law and avoidance of conflicts of interest. Management information systems development and revisions to accounting practices are also subject to review by this committee.

The committee meets as required and at least twice annually. It reports to the Board of Directors on its activities, particularly its review of the Bank's financial statements and on the nomination and remuneration of auditors.

The Nominating Committee, under given criteria governing the overall composition of the Board, is elected to recommend suitable candidates for appointment as directors.

Chairman: Claude Pratte.
Members: R.W. Adam, G.A. Burton, Mrs. Mitzi Dobrin, W.D.H. Gardiner, Paul Paré.

The Nominating Committee, under guidelines established to sustain Board composition, reviews and recommends areas of representation which are complementary to the Bank's strategic development goals. The committee further seeks to identify candidates who are able and willing to participate in the diverse scope of the Royal Bank's activities.

The committee meets at least semi-annually and is required to report to the Board of Directors at least once each fiscal year.

The Personnel and Compensation Committee, in an advisory capacity, reviews and monitors Personnel policies, management development program and total compensation practices of the Bank.

Chairman: John A. Tory.
Members: John Anderson, J.A. Armstrong, W.F. Light, J.P. Maurer, W.P. Wilder.

The Personnel and Compensation Committee is charged with periodic reviewing of the Bank's long range plans and policies for recruiting, developing and motivating personnel. Compensation practices and management succession are areas of regular review and

approval of remuneration of the Bank's most senior executive staff is required of this committee.

The committee is required to submit to the Board of Directors a report on its activities and any recommendations it deems appropriate.

The Public Policy Committee reviews the Bank's public posture to ensure that its operations remain consonant with the changing values and expectations of society.

Chairman: C.A. Dagenais.
Members: J.R. Evans, J.K. Finlayson, C.H. Knight, Mrs. Dawn R. McKeag, P.A. Nadeau, C.I. Rathgeb.

The Public Policy Committee acts in an advisory capacity to the Board of Directors in areas relating to the Bank's overall interaction with its various key publics. Studies of the Bank's efforts to ensure ethical and socially responsible business conduct, corporate responsibility by way of both human resource and financial contributions, and the appropriateness of Public Affairs considerations as related to the Bank's strategic goals, form the key elements of this committee's functional mandate.

Reports and recommendations are made annually to the Board of Directors. Meetings are scheduled on a quarterly basis.

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Rowland C. Frazee

President & Chief Operating Officer

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Vice-Chairman

H.E. Wyatt (Calgary)

Senior Executive Vice-President

Credit

B.D. Gregson

Senior Executive Vice-President

Financial Control & Administration

A.H. Michell

Senior Executive Vice-President

Treasury & Money Markets

R.C. Paterson (Toronto)

Senior Executive Vice-President

Domestic Banking

M.J. Regan

Senior Executive Vice-President

International and Corporate Banking

R.G.P. Styles (Toronto)

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B.V. Kelly (Toronto)

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J.T. Burnett (Toronto)

J.P. Clarke

G.J. Feeney

W.R. Fithern

J.C. Grant (Toronto)

E.L. Grosland (Toronto)

H.S. Hardy

D.N. Kitchen (Calgary)

W.A.R. MacDonald

R.A. Masleck (Toronto)

E.P. Neufeld

P.J. Rossiter (Toronto)

J.C. Sinclair (Toronto)

E.G. Stone

P.A. Taylor (Toronto)

Senior Vice-President & Treasurer

G.C. Aitken (Toronto)

Senior Vice-President & Comptroller

D. D'Alessandro

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R.W. Baguley

A.A. Bowbyes (Toronto)

J.K. Breen (Toronto)

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R. Gazard (Toronto)

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G.R. Heckman (Toronto)

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R.G. Hunkin

R.M. Juneau (Toronto)

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F.G. MacDonald

J.K. MacKay

C.G. MacKenzie

B.C. Marshall (Toronto)

B.D. Marshall (Toronto)

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H.D. McRorie (Winnipeg)

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M.A. Nicolai (Toronto)

J.V. Oram (Toronto)

P.A. Palmer (Toronto)

N.L. Rapkin

P.H. Rubenovitch

R.F.M. Smith (Calgary)

R.L. Spicer

W.D. Squires

H.C. Stewart

J.K. Talbot (Toronto)

P.H. Tucker

A.G. van Schalkwyk (Toronto)

K.A. von dem Hagen (Toronto)

B.G. Wallace (Toronto)

J.C. Walz (Toronto)

D.S. Wells

G.W. Wheeler (Toronto)

K.G. Wilson

G.M. Youssef (Toronto)

Vice-President & Chief Inspector

D.F.W. Bruce

Vice-President & Chief Accountant

J. Merriam

Vice-President & Secretary

R.J. Moores

Field Management

Senior Vice-Presidents &

General Managers

T.W. Bleackley (Vancouver)

H.G. Buckrell (Halifax)

G.J. Johnson (New York)

W.C.C. Mackay (London, England)

J.G. Macpherson (Toronto)

W.J. McCartney (Calgary)

J.B. McDonald (Winnipeg)

V.G. McKay (Hong Kong)

J.N.T. Rednall (Coral Gables, Florida)

R.B. Robertson (Regina)

M.L. Turcotte (Montreal)

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J.H.E. Bolduc (London, England)

W.J. Gorman (Toronto)

W.J.H. Nimmo (Toronto)

A. de Takacsy (London, England)

J.M. Walker (New York)

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J.P. Béland (Montreal)

R.G. Bernard (Montreal)

J.G. Bisailon (Montreal)

R. Bodt (London, England)

V.A. Brown * (Santo Domingo, Dominican Republic)

J.H.G. Camiré (Montreal)

A.M. Channell (Coral Gables, Florida)

J.T. Clayden (Tokyo, Japan)

A.E. Colling (Toronto)

J.D. Davison (Toronto)

W.R. Dinwoodie (Chicago)

W.D. Dobson (Winnipeg)

B.W. Dorset (Calgary)

L.G. Edmonds (Vancouver)

H.E. Elsie (Coral Gables, Florida)

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W.J. Grace (Toronto)

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R.F. Gulliford (Toronto)

R.A.R. Haskins (Vancouver)

R.F. Hemeon (Vancouver)

J.E. Henry (Calgary)

J.E. Johannesson (Toronto)

A.L. Johnson (Toronto)

K.N. Kikano (London, England)

R.P. Lasnier (Montreal)

E.W. Latimer (Burlington)

J.Y. Lawrie (Singapore)

J.M. Lejeune (Montreal)

K.A. Littlewood (Edmonton)

G.D. Loewen (Montreal)

E.J. Lundy (Vancouver)

I.A. MacKay (New York)

A.S. MacNeill (Ottawa)

A.A. McArthur (Houston, Texas)

E.R. McCutcheon (New York)

J.M. Messmer (Toronto)

S.A. Middaugh (Halifax)

W.T. Moodie (New York)

W.R. Penner (Toronto)

H.A. Philpott (Regina)

M.D. Pollock (Vancouver)

A.L. Pottle (Halifax)

J.H. Prenger (Toronto)

P.J. Rafuse (Toronto)

D.L. Robertson (Toronto)

M.J. Ross (New York)

B. Schroder (Montreal)

D.R. Séguin (Montreal)

K.A. Smee (Toronto)

R.J. Sutherland (Vancouver)

G.G. Tallman (Calgary)

A.L. Tower (Toronto)

J.A.B. Townley (London, England)

R.E. Travis (Winnipeg)

J.B. Traynor (Toronto)

J.A.W. Van Slyck (San Francisco)

W.C. Watt (Regina)

Subsidiaries & Affiliates *

Senior Vice-Presidents

A. Cravero (London, England)

W.J. MacKay (Melbourne, Australia)

A.A. Webb (Geneva, Switzerland)

Vice-Presidents

R.L. Arseneault (Montreal)

M.A. Brennan (São Paulo, Brazil)

J.R. Groves (Hong Kong)

J.E.D. Lepage (Brussels, Belgium)

R.H. Riviere (Melbourne, Australia)

G.C. Tibbatts (Melbourne, Australia)

* Seconded Royal Bank Executive Officers

Head Office

1 Place Ville-Marie
P.O. Box 6001
Montreal, Quebec
Canada H3C 3A9

Canadian Field Headquarters
Atlantic Provinces

5161 George Street
P.O. Box 1147
Halifax, Nova Scotia
B3J 2Y1

*Senior Vice-President
and General Manager*
H.G. Buckrell
140 branches

(New Brunswick – 31,
Newfoundland – 20,
Nova Scotia – 83,
Prince Edward Island – 6)

Quebec

5 Place Ville-Marie
P.O. Box 6001
Montreal, Quebec
H3C 3A9

*Senior Vice-President
and General Manager*
M.L. Turcotte
201 branches
(Quebec – 200,
Northwest Territories – 1)

Ontario

20 King Street West
Toronto, Ontario
M5H 1C4

*Senior Vice-President
and General Manager*
J.G. Macpherson
537 branches

Manitoba

220 Portage Avenue
Winnipeg, Manitoba
R3C 2T5

*Senior Vice-President
and General Manager*
J.B. McDonald
100 branches

Saskatchewan

2010-11th Avenue
Regina, Saskatchewan
S4P 3A2

*Senior Vice-President
and General Manager*
R.B. Robertson
118 branches

Alberta

335 Eighth Avenue S.W.
Calgary, Alberta
T2P 2N5

*Senior Vice-President
and General Manager*
W.J. McCartney
164 branches
(Alberta – 162,
Northwest Territories – 2)

British Columbia

1055 West Georgia Street
Vancouver, British Columbia
V6E 3S5

*Senior Vice-President
and General Manager*
T.W. Bleackley
180 branches
(British Columbia – 179,
Yukon – 1)

**Domestic Subsidiaries and
Affiliates**

Royal Bank Export Finance
Co. Ltd.

Royal Bank Venture Capital
Limited
Royal Bank Plaza
200 Bay Street
Toronto, Ontario
M5J 2J5

Royal Bank Mortgage Corporation
Royal Bank Realty
RoyLease Limited
1 Place Ville Marie
P.O. Box 6001
Montreal, Quebec
H3C 3A9

RoyNat Ltd.
620 Dorchester Boulevard West
Montreal, Quebec
H3B 1P2

**International
Field Headquarters**
Asia Pacific

18th Floor, Gloucester Tower
The Landmark
11 Pedder Street, Central
G.P.O. Box 3302
Hong Kong
*Senior Vice-President
and General Manager*
V.G. McKay

Europe, Middle East & Africa

99 Bishopsgate
London EC2M 3XQ
England, United Kingdom
*Senior Vice-President
and General Manager*
W.C.C. Mackay

Latin America & Caribbean

2199 Ponce de Leon Boulevard
Coral Gables, Florida 33114-3806
U.S.A.

*Senior Vice-President
and General Manager*
J.N.T. Rednall

U.S.A.

Park Avenue Plaza
55 East 52nd Street
New York, N.Y. 10055
U.S.A.

*Senior Vice-President
and General Manager*
G.J. Johnson

**World Corporate Banking
Field Headquarters**
Canada

Royal Bank Plaza
200 Bay Street
Toronto, Ontario
M5J 2J5

Senior Vice-President
W.J.H. Nimmo

Europe

99 Bishopsgate
London EC2M 3XQ
England, United Kingdom
Senior Vice-President
J.H.E. Bolduc

Japan

14th Floor
Hibiya Kokusai Building
2-2-3 Uchisaiwai-Cho
Chiyoda-ku
C.P.O. Box 1709
Tokyo 100
Vice-President
J.T. Clayden

U.S.A.

Park Avenue Plaza
55 East 52nd Street
New York, N.Y. 10055
U.S.A.

Senior Vice-President
J.M. Walker

Global Merchant Banking Units**Canada**

Merchant Banking (Head Office)
The Royal Bank of Canada
200 Bay Street
Royal Bank Plaza
Toronto, Ontario
Vice-President
A.A. Bowbyes

Merchant Banking (Canada)
The Royal Bank of Canada
200 Bay Street
Royal Bank Plaza
Toronto, Ontario
Vice-Presidents
B.D. Marshall
A.G. van Schalkwyk

Orion Royal Bank Limited
Representative Office
Suite 1300
200 Bay Street
Royal Bank Plaza
Toronto, Ontario
Representative
H.E.T. Oddie

Europe

Orion Royal Bank Limited
1 London Wall
London EC2Y 5JX
*Deputy Chairman & Chief
Operating Officer*
A. Cravero

The Royal Bank of Canada
(Channel Islands) Limited
P.O. Box 48
St. Julian's Avenue
St. Peter Port, Guernsey
Channel Islands

Managing Director
T.J. Betley

Affiliate
Kitcat & Aitken
The Stock Exchange
London EC2N 1HB
Senior Partner
P. Nuttall

Asia Pacific

Orion Royal Pacific Limited
28th Floor, Alexandra House
16-10 Chater Road
Hong Kong
Managing Director
J.R. Groves

Orion Royal Bank Limited
Representative Office
14th Floor
Hibiya Kokusai Building
2-2-3 Uchisaiwai-Cho
Chiyoda-ku
C.P.O. 1709
Tokyo 100
Japan

Chief Representative
J. Fawthrop

Affiliate
Capel Court Corporation Limited
425 Collins Street
Melbourne, VIC 3000
Managing Director
R.B. Cullen

Affiliate
China Investment and Finance
Limited
2306-2309 Connaught Centre
1 Connaught Place
G.P.O. Box 11509
Hong Kong
Managing Director
R.B. Gray

U.S.A.

Orion Royal Inc.
Park Avenue Plaza
55 East 52nd Street
New York, New York 10055
President
M.A. Watson

International Business Units**Antigua**

Branch
25-26 High Street At Market
P.O. Box 252
St. John's

Argentina

Main Branch and Regional Office
Florida 202 Esq. Cangallo
Casilla de Correo 1899
Buenos Aires
(2 sub-branches in Buenos Aires)
Representative Office
Florida 234 Esq. Cangallo, 2° Piso
Casilla de Correo 1899
Buenos Aires

Australia

Affiliates
National Mutual RBC Limited
425 Collins Street
Melbourne, VIC 3000
Capel Court Corporation Limited
425 Collins Street
Melbourne, VIC 3000

Bahamas

Regional Office
Beaumont House
327 Bay Street
P.O. Box N-7549
Nassau, N.P.
Main Branch
P.O. Box N-7537
323 Bay Street
Nassau, N.P.
(15 other branches/sub-branches in
Bahamas)

Subsidiaries

Finance Corporation of Bahamas
Limited
Frederick House
Frederick Street
P.O. Box N-3038
Nassau, N.P.

The Royal Bank of Canada
International Limited
Beaumont House
P.O. Box N-3024
Nassau, N.P.

Affiliate

RoyWest Trust Corporation
(Bahamas) Limited
West Bay Street
P.O. Box N-7788
Nassau, N.P.

Barbados

Regional Office
Broad Street
P.O. Bag Service 1011
Bridgetown
Main Branch
P.O. Box 68
Broad Street
Bridgetown
(5 sub-branches in Barbados)

Subsidiaries

The Royal Bank of Canada
(Barbados) Limited
Trident House
Lower Broad Street
P.O. Bag Service 1022
Bridgetown
Royal Bank Trust Company
(Barbados) Limited
Trident House
Lower Broad Street
P.O. Box 626C
Bridgetown

Belgium

Subsidiaries
The Royal Bank of Canada
(Belgium) S.A.
RBC Trade Finance S.A.
Rue de Ligne 1
B-1000 Bruxelles

Belize

Branch
60 Market Square
P.O. Box 364
Belize City
(3 other branches in Belize)

Brazil <i>Representative Office</i> The Royal Bank of Canada Representações S/C Ltda. Av. Paulista 460, 16th Floor 01310 São Paulo <i>Subsidiary</i> Banco Royal Do Canada (Brasil) S.A. Av. Paulista 949 CJ. 121 01311 São Paulo <i>Main Branch</i> Banco Royal Do Canada (Brasil) S.A. Rua 15 de Novembro 240 Caixa Postal 8065 01310 São Paulo Cayman Islands <i>Branch</i> P.O. Box 245 Cardinal Avenue George Town Grand Cayman <i>Affiliate</i> RoyWest Trust Corporation (Cayman) Limited P.O. Box 707 George Town Grand Cayman Channel Islands <i>Subsidiaries</i> RBC Investment Managers Limited P.O. Box 246 Ann's Place St. Peter Port, Guernsey The Royal Bank of Canada (Channel Islands) Limited Orion Royal Bank (Guernsey) Limited The Royal Bank of Canada Trustees (Guernsey) Limited The Royal Bank of Canada Trustees (Jersey) Limited P.O. Box 48 St. Julian's Avenue St. Peter Port, Guernsey	China (People's Republic of) <i>Representative Offices</i> Shenzhen Suite 1208 International Commercial Building East Block Shenzhen Beijing Room 5086, Beijing Hotel Beijing Colombia <i>Affiliate</i> Banco Royal Colombiano Carrera 8 No. 14.45 Apartado Aéreo 3438 Bogotá 5 Commonwealth of Dominica <i>Branch</i> Bayfront P.O. Box 19 Roseau France <i>Subsidiary</i> The Royal Bank of Canada (France) S.A. 3, rue Scribe 75440 Paris Cedex 09 Germany (Federal Republic of) <i>Subsidiary</i> The Royal Bank of Canada A.G. P.O. Box 102247 Bockenheimer Landstrasse 61 D-6000 Frankfurt (Main) 1 Greece <i>Subsidiary</i> RoyMidEast Limited Leoforas Kifissias 38 Paradissos Amaroussion Athens	Hong Kong <i>Branch</i> 18th Floor, Gloucester Tower The Landmark 11 Pedder Street, Central G.P.O. Box 3302 Hong Kong <i>Subsidiaries</i> InchRoy Credit Corporation Limited 3908 Windsor House 311 Gloucester Road P.O. Box 31386 Causeway Bay Orion Royal Pacific Limited 28th Floor Alexandra House 16-20 Chater Road, Central Royal Bank of Canada Trust Co. (Asia) Ltd. 18th Floor, Gloucester Tower The Landmark 11 Pedder Street, Central G.P.O. 3302 Hong Kong <i>Affiliate</i> China Investment & Finance Limited 2306-2309 Connaught Centre 1 Connaught Place G.P.O. Box 11509 Italy <i>Representative Office</i> Corso Matteotti 3 20121 Milano Japan <i>Branch</i> 14th Floor Hibiya Kokusai Building 2-2-3 Uchisaiwai-Cho Chiyoda-ku C.P.O. Box 1709 Tokyo 100 <i>Subsidiary</i> Orion Royal Bank Limited Representative Office 14th Floor Hibiya Kokusai Building 2-2-3 Uchisaiwai-Cho Chiyoda-ku C.P.O. 1709 Tokyo 100	Korea <i>Branch</i> Kyobo Building 7th Floor 1-1,1-Ka, Chongro Chongro-Ku C.P.O. Box 5374 Seoul Lebanon <i>Subsidiary</i> The Royal Bank of Canada (Middle East) S.A.L. Immeuble Hanna Ghantous & Sons First Floor Dora, Beirut Mexico <i>Representative Office</i> Apartado Postal 6-1020 Hamburgo 172 Piso 5 Mexico 6 D.F. Montserrat <i>Branch</i> Parliament Street P.O. Box 222 Plymouth Netherlands <i>Subsidiaries</i> RBC Finance B.V. RBC Holdings B.V. RBC Houdstermaatschappij B.V. RBC Management Services B.V. Keizersgracht 604 1017 EP Amsterdam Orion Leasing Nederland B.V. Herengracht 489 1017 BT Amsterdam Panama <i>Branch</i> Avenida Manuel Maria Icaza No. 7 Apartado H Panama 5 <i>Representative Office</i> Avenida Manuel Maria Icaza No. 7 Apartado H Panama 5
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Puerto Rico

Main Branch and Regional Office
255 Ponce de Leon Avenue
P.O. Box 819
Hato Rey
(4 other branches in Puerto Rico)

Subsidiary

Royal Bank de Puerto Rico
654 Munoz Rivera Avenue
G.P.O. Box 4208
Hato Rey
(16 other branches in Puerto Rico)

St. Kitts

Branch
Fort & Bay Roads
P.O. Box 91
Basseterre

St. Lucia

Branch
Boulevard & Laborie Streets
P.O. Box 280
Castries

Singapore

Branch and Asian Currency Unit
140 Cecil Street #01-00
PIL Building
Singapore 0106

Subsidiaries

InchRoy Credit Corporation
Limited
230 Orchard Road #12-236A
Faber House
Singapore 0923
Republic of Singapore
The Royal Bank of Canada (Asia)
Limited
140 Cecil Street #16-01
PIL Building
Singapore 0106
Republic of Singapore

Spain

Representative Office
Paseo de la Castellana 51.3
28046 Madrid

Switzerland

Subsidiary
The Royal Bank of Canada (Suisse)
Rue Diday 6
Case Stand 130
1211 Geneva 11

Affiliate

RoyWest Trust Corporation S.A.
Lausanne
C.P. 120, Avenue d'Ouchy 41
1000 Lausanne 13

Taiwan

Branch
8th Floor
Tun Hwa Financial Building
214 Tun Hwa North Road
P.O. Box 81-775
Taipei 100

Thailand

Representative Office
4th Floor
Cathay Trust Building
1016 Rama IV Road
Bangkok 5

Trinidad

Affiliates
The Royal Bank of Trinidad and
Tobago Limited
3B Chancery Lane
P.O. Box 287
Port of Spain
Royal Bank Trust Company
(Trinidad) Limited
3B Chancery Lane
P.O. Box 1293
Port of Spain
The Royal Bank Mortgage and
Finance Company Limited
31 Frederick Street
Port of Spain

United Arab Emirates

Branch
P.O. Box 3614
4th Floor
Chamber of Commerce Building
Deira, Dubai

United Kingdom

Main Branch
6 Lothbury
London EC2R 7JY
(1 other branch in London)

Subsidiaries

Orion Royal Bank Limited
Orion Leasing Holdings Limited
1 London Wall
London EC2Y 5JX

The Royal Bank of Canada Forfait
Finance Limited
The Royal Bank of Canada Trade
Finance Limited
1 Seething Lane
London EC3N 4BP

The Royal Bank of Canada
Holdings (U.K.) Limited
99 Bishopsgate
London EC2M 3XQ

Western Trust & Savings Limited
The Moneycentre
Plymouth PL1 1SE

Affiliate

Libra Bank PLC
140 London Wall
London EC2Y 5DN

USA**Branches****Miami**

801 Brickell Avenue
Suite 1001
Miami, Florida 33131

New York

68 William Street
New York, New York 10005

Portland

1515 South West 5th Avenue
Suite 900
Portland, Oregon 97201

San Francisco

101 California Street
Suite 2000
San Francisco, California
94111-5880

Representative Offices**Chicago**

33 North Dearborn Street
Suite 1200
Chicago, Illinois 60602

Dallas

4380 Thanksgiving Tower
1601 Elm Street
Dallas, Texas 75201

Denver

1801 Broadway
Suite 300
Denver, Colorado 80202

Houston

Texas Commerce Tower
Suite 6850
600 Travis Street
Houston, Texas 77002

Los Angeles

600 Wilshire Boulevard
Suite 600
Los Angeles, California 90017

Pittsburgh

600 Grant Street
Suite 4970
United States Steel Building
Pittsburgh, Pennsylvania 15219

San Francisco

101 California Street
Suite 2000
San Francisco, California
94111-5880

Subsidiaries

The Royal Bank and Trust
Company
68 William Street
New York, New York 10005
Orion Royal Inc.
Park Avenue Plaza
55 East 52nd Street
New York, New York 10055

Venezuela**Representative Office**

Edificio Banco Royal
Venezolano C.A.
Piso 8
Esquina de Animas y Avenida
Urdaneta
Apartado 1480
Caracas 1010A

Affiliate

Banco Royal Venezolano C.A.
Esquina de Animas y Avenida
Urdaneta
Apartado 1009
Caracas 1010A

Stock Exchange Listings

Canada: Montreal, Toronto, Vancouver, Winnipeg and Alberta Stock Exchanges

U.K.: London Stock Exchange

Transfer Agent and Registrar

Main Agent:

Mailing Address: Montreal Trust
Company of Canada
P.O. Box 1900,
Station "B"
Montreal, Quebec
Canada H3B 3L6

Street Address: 1 Place Ville Marie
Montreal, Quebec
Canada H3B 4A8

Telephone: (514) 397-7000
Telex: 055-61286

Co-Agents (Canada)

Montreal Trust Company of Canada

Halifax, N.S. 1690 Hollis Street P.O. Box 2187 B3J 3C5	Toronto, Ontario 15 King Street W. M5H 1B4
---	--

Calgary, Alberta 411-8th Avenue S.W. T2P 1E7	Regina, Sask. 1908-11th Avenue P.O. Box 4500 S4P 3W7
--	---

Winnipeg, Man. 221 Portage Avenue P.O. Box 369 R3C 2J1	Vancouver, B.C. 510 Burrard Street V6C 3B9
---	--

Co-Agent (United Kingdom)

The Royal Bank of Canada
6 Lothbury
London, England
EC2R 7JY

Shareholder Dividend and Share Purchase Plan

Shareholders of record or beneficial owners of Common and/or of certain eligible series of preferred shares may enroll in the Plan. Participants in the Plan may elect to receive their dividends in the form of new Common Shares (stock dividends) or reinvest their cash dividends in new Common Shares. In both instances, the price of the new Common Shares is 95% of the average market price determined at the date of the dividend payment. Participants in the Plan may also make optional payments to purchase new Common Shares as frequently as once a month (on the Investment Date) for an aggregate amount up to Cdn. \$7,500 per quarterly dividend period at 100 per cent of the average market price.

Further information on the Shareholder Dividend and Share Purchase Plan may be obtained from the Manager, Shareholder Services, at the Bank's corporate headquarters.

Direct Deposit Service

Shareholders and debentureholders may also elect to have their dividends or interest deposited directly into their savings or chequing accounts at any financial institution which is a member of the Canadian Payments Association. To arrange, please write to the Manager, Shareholder Services, at the Bank's corporate headquarters.

Institutional Investor, Broker, Security Analyst Contact

Institutional investors, brokers, security analysts and others desiring financial information about the Bank should contact the Manager, Investor Relations, at the Bank's corporate headquarters.

Duplicate Annual Reports

Some registered holders of shares of The Royal Bank of Canada might receive more than one copy of shareholder information mailings such as this Annual Report. While every effort is made to avoid duplication, if securities of the same class or series are registered in different names and/or addresses, multiple copies are forwarded. Shareholders receiving more than one copy are requested to write to the Manager, Shareholder Services, at corporate headquarters so that arrangements may be made to avoid duplicate mailings.

Information concerning the Royal Bank and its activities in Canada and abroad may be obtained from the Public Affairs Department at the Bank's corporate headquarters.

<i>Mailing Address:</i>	The Royal Bank of Canada P.O. Box 6001 Montreal, Quebec Canada H3C 3A9
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<i>Street Address:</i>	1 Place Ville Marie Montreal, Quebec Canada
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<i>Telephone:</i>	(514) 874-2110
<i>Telex:</i>	055-61086

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